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**Globalization and interdependence: international
migration and development**

International migration and development

Report of the Secretary-General

Summary

Pursuant to General Assembly resolution 61/208, the present report provides a basis for the consideration of possible options for the appropriate follow-up to the High-level Dialogue on International Migration and Development, which the Assembly conducted in New York on 14 and 15 September 2006. The report also assesses the activities of all relevant bodies, agencies, funds and programmes of the United Nations system and other relevant international and regional organizations in addressing international migration and development issues.

In accordance with General Assembly resolution 62/270, the report includes an evaluation of existing cooperation mechanisms on migration and development based on an overview of ongoing efforts by Governments to include development considerations in regional and interregional cooperation mechanisms and regional consultative processes focusing on international migration.

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I. Introduction

1. The High-level Dialogue on International Migration and Development marked a defining moment in the consideration by Member States of the ways and means to maximize the development benefits of international migration and minimize its negative impacts. Until 2006, no major event at the United Nations had focused exclusively on the interrelations between international migration and development. The High-level Dialogue proved that international migration and development could be debated constructively in the United Nations.

2. At the High-level Dialogue, Member States voiced widespread support for the proposal of the Secretary-General to establish a global forum as a venue for Governments to discuss the interrelations between international migration and development in a systematic and comprehensive way. During the Dialogue, the Government of Belgium offered to organize the first meeting of such a forum. The Global Forum on Migration and Development was therefore launched in 2006 as a voluntary, non-binding and informal consultative process, led by and open to all States Members and observers of the United Nations. The first meeting of the Global Forum took place in Brussels in July 2007 and was hosted by the Government of Belgium. The second meeting will take place in Manila in October 2008 and is being organized by the Government of the Philippines.

3. The present report was prepared in response to General Assembly resolutions 61/208, on international migration and development, and 62/270, on the Global Forum on Migration and Development. In its resolution 61/208, the Assembly decided to consider, at its sixty-third session, possible options for appropriate follow-up to the High-level Dialogue. It also encouraged consideration of development dimensions of international migration, in the context of regional and interregional cooperation mechanisms and regional consultative processes on international migration, and called upon all relevant bodies, agencies, funds and programmes of the United Nations system and other relevant organizations to continue addressing the issue of international migration and development within their respective mandates. In its resolution 62/270, the Assembly called for an evaluation of existing cooperation mechanisms on international migration and development. The present report reviews the substantive conclusions of the High-level Dialogue and developments following the Dialogue, especially with respect to the State-led Global Forum, in order to set the stage for the consideration of options for appropriate follow-up to the Dialogue. The report also reviews activities of the United Nations system on international migration and development and provides an overview of efforts to include development dimensions in cooperation mechanisms on international migration together with their evaluation.

II. High-level Dialogue on International Migration and Development

4. The 132 Member States that participated in the High-level Dialogue on International Migration and Development, conducted by the General Assembly on 14 and 15 September 2006, reaffirmed a number of key messages. First, they underscored that international migration was a growing phenomenon and that it could make a positive contribution to development in countries of origin and

countries of destination provided it was supported by the right policies. Secondly, they emphasized that respect for the fundamental rights and freedoms of all migrants was essential to reap the benefits of international migration. Thirdly, they recognized the importance of strengthening international cooperation on international migration bilaterally, regionally and globally.

5. Although the High-level Dialogue stressed that international migration could contribute to development, it recognized that international migration was not a substitute for development. All too often, migrants were compelled to seek employment abroad because of poverty, conflict or violations of human rights. Peace and security, good governance, the rule of law and the provision of decent work in countries of origin ensured that people migrated out of choice instead of necessity. International migration needed to be an integral part of the development agenda and should be part of national development strategies.

6. Remittances improved the lives of millions of families and had a positive effect on the economy at large. The transfer costs of remittances had to be reduced and supporting policies were needed to maximize the development potential of remittances. Remittances, being private funds, could not replace official development assistance.

7. Migrant communities were making important contributions to the development of their home countries. Governments were strengthening ties with their citizens abroad and promoting the involvement of their migrants in the transfer of technology, know-how and capital. Promoting the return, whether permanent or temporary, of skilled emigrants could help fill skill gaps at home. Support for entrepreneurship and business creation in countries of origin could promote return.

8. The emigration of highly skilled workers from developing countries posed serious challenges, in particular in small low-income countries where crucial sectors, such as health and education, were severely affected by the emigration of high proportions of skilled persons. Ethical recruitment practices in countries of destination and partnerships to train needed personnel in countries of origin were the suggested policy responses.

9. Special measures were needed to protect migrant women, men and children from violence, discrimination, trafficking, exploitation and abuse and to provide protection to those in need of asylum. It was important to ratify and implement the core human rights instruments. The protocols against trafficking in persons and smuggling of migrants were considered key instruments in the fight against those crimes. The Multilateral Framework on Labour Migration of the International Labour Organization provided useful guidelines to ensure the respect of the rights of migrant workers.

10. In order to strengthen international cooperation on international migration at the global level, nearly all participants in the Dialogue indicated that intergovernmental dialogue should continue. There was widespread support for establishing a global forum on international migration and development, as proposed by the Secretary-General. The Government of Belgium offered to organize the first meeting of such a forum.

III. Follow-up to the High-level Dialogue on International Migration and Development

A. Global Forum on Migration and Development

11. Following the High-level Dialogue, the Government of Belgium launched a process to establish the Global Forum on Migration and Development as a voluntary, non-binding and informal consultative process, led by and open to all States Members of the United Nations and observers. By providing a venue for Governments to address issues related to international migration and development in a systematic and comprehensive way, the Global Forum brings together Government expertise from all regions, promotes dialogue, cooperation and partnerships, and fosters practical and action-oriented outcomes at the national, regional and global levels.

12. The first meeting of the Global Forum took place in Brussels on 10 and 11 July 2007. Representatives of 156 Member States participated in the meeting, which focused on human capital development and labour mobility; remittances and other resources from migrants abroad; institutional and policy coherence, and partnerships. The meeting of Member States was preceded by a one-day meeting of representatives of civil society, organized by the King Baudouin Foundation, whose report was submitted to the Forum.

13. The first meeting of the Global Forum built on the outcome of the High-level Dialogue by adding depth to the discussion of the issues that the Dialogue had addressed and searching for practical ways of responding to the problems identified. Thus, the Forum focused on identifying good practices to leverage the development impact of migrants' resources and to encourage migrants abroad to contribute to the development of communities of origin, in particular through trade, investment and circular migration. It also considered ways of promoting competition among money transfer companies and banks in order to reduce remittance transfer costs, especially by taking advantage of technological developments. With respect to the problems caused by the emigration of high proportions of skilled personnel from small, low-income developing countries, the Forum focused on efforts to develop ethical recruitment practices in countries of destination and on other means, such as circular migration, of palliating the lack of skilled personnel in key sectors.

14. A key objective of the Global Forum process is to promote policy and institutional coherence with respect to international migration and development. Building on one of the achievements of the High-level Dialogue, namely, the development of national positions on international migration and development, the Forum requested Governments to designate national focal points in charge of coordinating positions and action at the national level. A number of Governments reported that their national focal points had been effective promoters of national debate and had contributed to improve understanding of the issues raised by the linkages between international migration and development.

15. The organization of the second meeting of the Global Forum is well under way. Under the general theme of "protecting and empowering migrants for development", the meeting will focus on a review of good practices in protecting migrants' rights during all stages of the migration process; ways of maximizing the contribution of migrants to development through remittances, investment, transfer

of knowledge, networking and partnerships; the beneficial impact of legal migration and ways of reducing irregular movements; the need to improve data and coordinate research to support policy formulation; and ways to promote policy and institutional coherence at the national, regional and global levels. The Government of the Philippines, which is organizing the meeting, will host it in Manila on 29 and 30 October 2008. The meeting will be preceded by a two-day meeting of representatives of civil society organized by the Ayala Foundation.

16. The operational modalities of the Global Forum have been evolving rapidly. At its first meeting, a paper outlining those modalities was discussed and approved. The meetings of the Forum are organized by the Chair-in-Office, assisted by other members of the Troika, which consists of the previous, current and next chairpersons of the Forum. The organizer of the Forum alternates between developed and developing countries. Greece has offered to organize the third meeting of the Forum in 2009 and Argentina has done so for the 2010 meeting. Therefore, the Troika is constituted at present by representatives of Belgium, Greece and the Philippines.

17. A Steering Group is composed of Governments firmly committed to offer sustained support to the Global Forum process and the Chair-in-Office. Members of the Troika are ex officio members of the Steering Group. The Steering Group is regionally balanced and its composition takes into account various migration perspectives. Under the chairmanship of the Philippines, the Steering Group has met several times in Geneva and its members have provided guidance on and input for the thematic preparation of the second meeting of the Forum. Between 20 and 30 Member States have participated in Steering Group meetings.

18. The Chair-in-Office relies on the Friends of the Forum — an open-ended group constituted by all States Members and observers of the United Nations where international organizations are invited as observers — to keep the international community informed about how the Global Forum process is advancing and to obtain advice on the agenda, structure and format of the annual meeting of the Forum. The Friends of the Forum have been meeting at least twice a year, mainly in Geneva.

19. To carry out the tasks related to the Global Forum, the Chair-in-Office is assisted by a small and temporary support structure comprising staff provided by the host Government and experts or advisers seconded by other Governments. Discussions are ongoing on the possibility of setting up a less transient support structure. Forum activities have been financed by Government contributions, including those of the host country.

20. The Global Forum maintains a link with the Secretary-General through its Special Representative on International Migration and Development, who participates in meetings of the Steering Group and the Friends of the Forum. The Secretary-General delivered the opening address at the first meeting of the Forum in Brussels. The report of the first meeting was transmitted to the President of the General Assembly for distribution to Member States. This practice will be maintained in future meetings of the Forum.

B. Future options for developing the agenda on international migration and development

21. In order to benefit from the views of Member States on the possible options for appropriate follow-up to the High-level Dialogue, a set of open-ended questions was sent to the permanent representatives of States Members of the United Nations and to the national focal points designated in the context of the Global Forum process. By 15 July 2008, 64 Member States had responded to the questions posed (see figure below).¹ Most respondents saw a need for follow-up to the High-level Dialogue in the United Nations.

Figure

Map showing in grey the Member States whose responses were received by 30 June 2008



Note: The boundaries shown on the present map do not imply official endorsement or acceptance by the United Nations.

22. Virtually all Member States that responded considered the Global Forum to be a useful outcome of the High-level Dialogue. Only three either expressed no opinion on this point or thought the Forum was not a formal outcome of the Dialogue. One in every six respondents was of the view that the Forum should be the sole follow-up to the High-level Dialogue. Many respondents considered that the Forum was contributing to foster dialogue and exchange of experience among practitioners, and that it could provide the action-oriented platform needed to guide cooperation and build partnerships among Member States and with other actors. Several respondents noted that the State-led and informal nature of the Forum provided the flexibility

¹ On 18 March 2008, a letter from the Under-Secretary-General for Economic and Social Affairs, Sha Zukang, accompanied by a questionnaire for Member States on the follow-up to the 2006 High-level Dialogue on International Migration and Development, was sent by telefax to 193 Permanent Representatives of States Members of the United Nations, the Holy See and Palestine, with copy to the national focal points designated in the context of the Global Forum. Reminders requesting a response were sent by e-mail and follow-up by telephone was made during the week preceding and following the deadline for submission (30 April 2008). By 15 July 2008, 64 Member States had replied to the questionnaire.

needed to explore complex and potentially divisive issues. Some respondents were of the view that the link between the Forum and the United Nations needed to be strengthened. Others considered that the Forum process needed more time to develop on its own before its relationship to the United Nations was modified.

23. Many of the Member States that responded viewed the follow-up as a process to take stock of what was being achieved and to address outstanding issues. A number of suggestions for follow-up were put forward from this perspective, including the continued inclusion of an item on international migration and development on the agenda of the Assembly; fostering cooperation and dialogue at the regional and global levels; and organizing regional or thematic meetings. Some respondents suggested that any further deliberations by the Assembly on international migration and development should give special consideration to the ideas and initiatives being generated by the Global Forum. Others noted that the Assembly should bring together the various regional perspectives and build upon regional and interregional initiatives. Several respondents considered that the Assembly should focus periodically and at a high level on international migration and development to take stock of advances made by Governments, the United Nations system and other international or intergovernmental organizations at the regional, interregional and global levels. Follow-up by the Assembly was thought desirable because it was the only body of the United Nations with the necessary universality and legitimacy to provide the framework for broader agenda-setting and political commitment.

24. Several Member States underscored that follow-up to the High-level Dialogue should encompass actions to implement the guidance emanating from the Dialogue. They considered that a key element of follow-up was the implementation of new initiatives through existing multilateral structures, including the international financial institutions. In their view, any follow-up by the General Assembly should take account of the activities of the multilateral system, including the agencies, funds and programmes of the United Nations system.

IV. Addressing international migration and development within the United Nations system and in other relevant international organizations

25. The present section focuses on the activities on international migration and development that relevant bodies, agencies, funds and programmes of the United Nations system and other relevant organizations have conducted since the 2006 High-level Dialogue. Although the mandates of the different entities considered did not change immediately in response to the Dialogue, many of those mandates already incorporate a focus on international migration and its relation to development derived from the objectives and guidelines for action contained in the various outcome documents of the major United Nations conferences and summits which, taken as a whole, provide a solid agenda for action on international migration.²

² See "Compendium of Recommendations on International Migration and Development" (ESA/P/WP.197).

A. United Nations Secretariat

26. Within the United Nations Secretariat, the Department of Economic and Social Affairs is the focal point for international migration and development, mainly through the activities of its Population Division. The Division provides substantive secretariat support for the meetings of the Commission on Population and Development. It also carries out substantive work on international migration and development in support of the General Assembly. The Division is the source of authoritative estimates of international migration levels and trends. Since the High-level Dialogue, it has been developing a comprehensive database on international migrant stocks, with the collaboration of the Statistics Division of the Department of Economic and Social Affairs and the World Bank. This work has benefited from the financial support of the United Nations Children's Fund (UNICEF) and the United Nations Development Programme (UNDP). The database is being used to derive estimates of the number of migrants per country by age and sex. In compliance with General Assembly resolution 58/208, the Division convenes annual coordination meetings on international migration where all relevant entities in the United Nations system meet to exchange information about ongoing activities and report on future work in the area of international migration and development. The Statistics Division is in charge of compiling international migration statistics and providing recommendations to promote their harmonization. Since the Dialogue, the Statistics Division has been active in developing guidelines on the implementation of the most recent set of recommendations.

27. The rights of migrants and their interrelations with development are the purview of the Office of the United Nations High Commissioner for Human Rights (OHCHR). The Office collaborates with partner agencies to protect the rights of all migrants at all stages of the migration process and promotes understanding of the relevance of human rights in realizing the benefits of international migration and facing the challenges it poses. During International Migrants Day on 18 December, the High Commissioner underscored that all migrants, regardless of their status, are entitled to enjoy human rights and emphasized that both migrant women and men contribute to economic and social development. OHCHR supports the work of the Special Rapporteur on the human rights of migrants and the Special Rapporteur on trafficking in persons, especially women and children. Both Special Rapporteurs have been focusing on the root causes of migration, migration and discrimination, the administrative detention of migrants and the protection of migrant women, unaccompanied minors and domestic workers. The Office services the Committee on the Protection of the Rights of All Migrant Workers and Members of Their Families, the body supervising compliance by States parties with the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families.

28. The United Nations Office on Drugs and Crime assists Member States in implementing the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime. The Office provides pre-ratification assistance, assistance in protecting and supporting victims, and guidance on policy development. It also promotes international cooperation and campaigns to raise awareness. In 2006, UNODC launched an initiative to strengthen the response of national criminal justice systems to migrant smuggling. In 2007, it launched the

United Nations Global Initiative to Fight Human Trafficking, which aims at implementing effective policies against human trafficking, raising awareness about the dangers it poses, mobilizing resources, increasing the knowledge base and implementing projects through partnerships.

B. Regional commissions

29. The Economic Commission for Africa (ECA) views regional economic integration as key to harnessing the benefits of international migration for development. It works towards removing obstacles to trade liberalization, market access and the movement of people. Development in Africa requires peace and stability based on the full respect of human rights, including the rights of international migrants and their families, and the promotion of multiculturalism, tolerance and social integration. In 2006, ECA prepared a report entitled "International Migration and Development: Implications for Africa" (ECA/SDD/06/01) and signed a memorandum of understanding with the International Organization for Migration (IOM). In 2008-2010, the Commission's work will focus on the role of remittances in development, capacity-building to improve the management of migration and migration and regional integration.

30. The Economic Commission for Latin America and the Caribbean, through the Latin American and Caribbean Demographic Centre (CELADE), carries out activities on international migration, human rights and development as part of its regular programme of work and with the support of the United Nations Population Fund (UNFPA). These activities include research, training, data dissemination, publications, technical assistance, organization and support of regional conferences, seminars and intergovernmental forums, including the Ibero-American Forum on Migration and Development. In 2008-2009, CELADE will implement, in collaboration with the other regional commissions and the Department of Economic and Social Affairs, a project to strengthen national capacities to maximize the development benefits of international migration.

31. The Economic and Social Commission for Asia and the Pacific (ESCAP) will convene a high-level meeting on international migration and development in 2008. ESCAP has undertaken a study on the social implications of international migration and is participating in the Thematic Working Group on International Migration, including Human Trafficking, to carry out an analysis of international migration in Eastern and South-Eastern Asia. ESCAP and IOM signed a memorandum of understanding in 2007 and are co-chairs of the Thematic Working Group.

32. The Economic and Social Commission for Western Asia (ESCWA) seeks to integrate international migration and development in national development strategies and ensure that the needs of migrant workers are addressed in social policy formulation. In 2007, ESCWA published a report entitled "International Migration and Development in the Arab Region: Challenges and Opportunities" (E/ESCWA/SDD/2007/2), reflecting the proceedings of an expert meeting organized in collaboration with the Population Division. In 2007, the Commission issued a fact sheet and a wallchart on international migration and development in the Arab region.

C. United Nations programmes and funds

33. The United Nations Conference on Trade and Development (UNCTAD) aims to maximize the contribution of migration to development and the achievement of the Millennium Development Goals by offering policy options on migration, trade and development. It provides strategic advice on trade and investment opportunities created by migrant communities and on policies to enhance the development impact of migrants' remittances to policymakers, trade negotiators and regulators. UNCTAD has been contributing to improving the knowledge base on circular migration and the emigration of highly skilled workers. Moreover, it facilitates and encourages temporary movements through mode 4 of the General Agreement on Trade in Services, trade in labour-intensive services, skills development and recognition of qualifications.

34. The United Nations Development Programme focuses mainly on developing policies to manage migration, including temporary or circular migration, to promote the productive use of remittances and to engage migrant communities as development actors. UNDP, in collaboration with IOM, UNICEF and the World Bank, is preparing a handbook on integrating migration into national development strategies. On behalf of the European Commission and with other United Nations agencies and IOM, UNDP is managing a programme on knowledge-sharing related to migration and development. In addition, it manages the MDG (Millennium Development Goals) Achievement Fund, financed by the Government of Spain, which includes funding for youth, employment and migration. UNDP and the Financing for Development Office of the Department of Economic and Social Affairs are preparing a report on realizing the potential of migrant communities abroad to reduce poverty and enhance entrepreneurship.

35. The Office of the United Nations High Commissioner for Refugees (UNHCR) has the task of ensuring the protection of refugees and asylum-seekers and finding solutions for the plight of refugees. Increasingly, persons in need of protection are found among the flows of persons migrating for other reasons. The High-level Dialogue validated the view that refugees, though special because of their need for international protection, must be included in the global debate on international migration and development. In order to address the challenges posed by "mixed migration" flows, UNHCR has developed a 10-point plan of action for refugee protection and mixed migration. The plan offers a framework to assist States in ensuring that persons in need of international protection who travel over the same routes as other migrants or in conjunction with them can be identified and treated appropriately. To examine the challenges and dilemmas linked to refugee protection amid today's migration flows, the High Commissioner organized and chaired a Dialogue on Protection Challenges, held in Geneva in December 2007.

36. The United Nations Children's Fund conducts research and analyses to identify practical solutions to the challenges that migration poses. A major concern is the plight of unaccompanied migrant children or those separated from their families. UNICEF focuses on assessing the impact of remittances on children left behind, safeguarding the rights of children and women affected by migration, preventing child trafficking and documenting the gender aspects of migration. Moreover, the Fund is testing methodologies to assess the social impact of migration and remittances on children left behind, using household surveys.

37. The United Nations Population Fund facilitates policy dialogue and cooperation among Governments, the United Nations system, non-governmental organizations and civil society to increase understanding of migration issues and to address the challenges of migration, including those faced by migrant women. It supports the formulation and implementation of gender-sensitive migration policies and programmes, and the integration of migration issues into national development strategies, including poverty reduction strategies. In addition, the Fund is working to prevent trafficking in girls and women and to assist victims of trafficking. Moreover, it supports programmes to prevent HIV infection, promote maternal and child health, and provide access to family planning, reproductive health information, counselling and services to refugees and migrant communities. Furthermore, UNFPA is supporting the collection and dissemination of age and sex-disaggregated migration data, in particular those derived from censuses.

D. United Nations research and training institutes

38. Since 2006, the United Nations Institute for Training and Research (UNITAR) has been organizing the "Migration and Development" seminar series for the diplomatic community in New York, with the support and collaboration of IOM, UNFPA and the MacArthur Foundation. The series has focused on key migration issues to provide Government representatives with the evidence and information they need to conduct intergovernmental discussions. In addition, starting in 2007, UNITAR and its partners have been organizing an annual course on international migration law designed to meet the needs of diplomats in New York.

39. The United Nations International Research and Training Institute for the Advancement of Women (INSTRAW) seeks to integrate the gender dimension in policies and programmes. It has worked on analysing changes in the migration of women; studying the impact of migration on gender roles, power relations and decision-making processes within households and communities; considering the linkages between migration, remittances and development, especially with respect to women, and documenting caregiver arrangements from a transnational perspective. INSTRAW has completed 18 case studies in various countries focusing on ways to maximize the impact of female migration and remittances on community and national development in countries of origin and destination.

E. Specialized agencies

40. The work of the International Labour Organization (ILO) on international migration and development is guided by the premise that the protection of migrants' rights and the development benefits of migration are inseparable. ILO recently issued a policy brief on migration and development and one on migrant rights and development. Through advisory services, advocacy, research, the dissemination of information and technical assistance for Member States and social partners, the organization aims at mainstreaming migration in decent work programmes, optimizing the use of migrant remittances and reintegrating returnees through small enterprise development. It works closely with the European Commission, the Organization for Economic Cooperation and Development, international organizations that are members of the Global Migration Group and the Governments

participating in the Global Forum on Migration and Development to promote development-friendly and gender-sensitive migration policies and practices.

41. The United Nations Educational, Scientific and Cultural Organization (UNESCO) addresses a range of migration issues, including the emigration of highly skilled workers, the international mobility of students, the international recognition of qualifications and diplomas, the use of knowledge networks by expatriate communities, cultural diversity and human trafficking. In addition, UNESCO, in collaboration with IOM, has established a network of migration museums to showcase the contributions of migrants to host societies. Moreover, the UNESCO Institute for Statistics compiles data that provide a comprehensive picture of the internationalization of tertiary education. Furthermore, UNESCO has established a number of regional migration research networks to exchange information among researchers and policymakers and promote capacity-building. A research network for Africa will be launched in 2008.

42. The World Bank works on improving knowledge on international migration and development by conducting country-specific and policy-relevant analysis on international migration and development. Its research activities focus primarily on the volume and impact of remittances, the effects of migration on household welfare and the macroeconomic effects of international migration on development. Such research has shown that, to realize the benefits of international migration for development, it is necessary to develop strong institutions, promote competition among money transfer companies and banks in order to reduce the costs of remittance transfers and expand opportunities for the temporary migration of unskilled workers, inter alia, through bilateral agreements. The World Bank supports the incorporation of standardized migration modules in existing survey programmes. It launched a multi-country survey project on international migration, remittances and development in Africa in 2007.

F. Other international organizations

43. The International Organization for Migration focuses on making international migration work for development by integrating migration policies in national development planning processes, including poverty reduction strategies; building the capacities of both Governments and individuals to maximize the development potential of labour migration; and promoting technical cooperation programmes and projects on migration and development. IOM seeks to engage expatriate communities as partners for development, including through the transfer of knowledge and skills. It convenes the International Dialogue on Migration, which brings together Member States, international organizations, civil society and the private sector for informal and non-binding consultations on migration with a view to sharing experiences and identifying effective practices.

G. Global Migration Group

44. The Global Migration Group is an inter-agency body, meeting at the level of heads of agencies, which aims to promote the wider application of all relevant international and regional instruments and norms relating to migration, and the provision of more coherent and stronger leadership to improve the overall

effectiveness of the United Nations and the international community's policy and operational response to the opportunities and challenges presented by international migration. As of mid-2008, the membership of the Group included the Department of Economic and Social Affairs, ILO, IOM, OHCHR, UNCTAD, UNDP, UNESCO, UNFPA, UNHCR, UNICEF, UNITAR, the United Nations Office on Drugs and Crime, the World Bank as well as the regional commissions of the United Nations. Responding to the invitation of Governments organizing round tables at the meetings of the Global Forum on Migration and Development in Brussels and Manila, members of the Group have been providing substantive inputs to those events. Moreover, they are preparing a joint report on international migration and human rights for the second meeting of the Global Forum.

V. Cooperation mechanisms on international migration and development

45. There are two types of mechanisms fostering intergovernmental cooperation on international migration. The first type includes formal regional organizations pursuing wider political or economic objectives, such as economic integration or trade liberalization, which have considered intraregional migration as a means of furthering integration. The second are informal consultative processes, most of which have a regional character, that began to appear mostly after 1995 and whose main objective, at least initially, has been to promote intergovernmental dialogue and cooperation on international migration. There are currently 13 regional consultative processes which, taken together, cover most countries in the world.

46. The present section explores the extent to which the two types of mechanisms have been focusing on the interrelations between international migration and development. When available, information on the achievements made so far is included. A thorough evaluation of the performance of the various mechanisms is, however, far from straightforward, given the diversity of their objectives and modes of operation. However, the discussion below provides an assessment of the extent to which the mechanisms have been focusing on ways to realize the benefits of migration on development.

A. Cooperation on international migration in the context of formal intergovernmental groups

47. In the European Union, facilitating intracommunity migration of European Union citizens has always been an integral part of economic integration. Currently, cooperation on international migration in the European Union revolves mainly around the movement of third-country nationals and is focusing increasingly on the development and employment dimensions of such migration. Thus, the European Union has been developing a number of interregional cooperation mechanisms to promote dialogue and cooperation on international migration with developing countries. In July 2006 the Ministerial Euro-African Conference on Migration and Development, held in Morocco, adopted the Rabat Declaration and an Action Plan. In November 2006 a joint meeting of Member States from Africa and the European Union adopted a Declaration on Migration and Development in Tripoli. More recently, the European Union has held meetings with regional economic

communities in Africa, especially with the Economic Community of West African States (ECOWAS), to discuss migration issues. In May 2008 the fourth summit meeting between the European Union and the Latin America and Caribbean region, held in Lima, addressed the development dimensions of international migration.

48. In May 2007, the European Commission launched a multi-year programme to assist developing countries in improving the overall management of migration flows. The programme promotes cooperation with third countries in the development aspects of migration and asylum, allocating €15 million, managed jointly with UNDP, to support small-scale migration and development projects. The European Union has been entering into mobility partnerships with some countries in order to facilitate the admission of their citizens to the European Union labour market while cooperating in building their capacity to prevent irregular migration and promote return. The European Commission is exploring whether circular migration programmes can be effective in satisfying labour demand in member States while also fostering development in communities of origin.

49. In 2006, the group of African, Caribbean and Pacific States, which have special trade relations with the European Union, adopted a Declaration on Asylum, Migration and Mobility and a Plan of Action. Also in 2006 a Joint African, Caribbean and Pacific States-European Union Council of Ministers established the African, Caribbean and Pacific States Migration Facility, which received €25 million from the ninth European Development Fund. The Facility should become operational in 2008. It will support an African, Caribbean and Pacific States Migration Observatory to bring together researchers on migration and development and promote data exchange and analysis. It will also foster the creation of regional forums on migration to strengthen regional and national institutional capacities. In May 2008 African, Caribbean and Pacific States ministers in charge of migration adopted a resolution on migration and development calling attention to the nexus between international migration and the environment, including climate change.

50. In Africa, the African Union adopted in 2006 a Migration Policy Framework calling upon member States and regional economic communities in Africa to strengthen the linkages between countries of origin and migrant communities abroad; to integrate migration and development policies in poverty reduction strategies and national development plans; to mitigate the effects of the emigration of highly skilled professionals and to maximize the mobilization and use of migrant remittances. These recommendations were also reflected in the 2006 African Common Position on Migration and Development.

51. In January 2008, a summit of States members of ECOWAS agreed to a common approach on migration to facilitate the implementation of the ECOWAS protocol on free movement and the right of residence and establishment for ECOWAS citizens. The approach also included agreement on promoting legal migration channels, strengthening ties between countries of origin and migrant communities abroad, and supporting the return of migrants. To implement the common approach, the Government of Spain and the ECOWAS Commission set up a €10 million ECOWAS-Spain Fund on Migration and Development in July 2008.

52. In the Arab region, the League of Arab States has shown increasing interest in the development dimensions of international migration. In July 2006, the League adopted a declaration entitled "Activating the Role of Migration in National

Development and Arab Regional Integration", which recognized the contributions of international migration to development in the Arab region.

53. In Asia, the Association of Southeast Asian Nations adopted in January 2007 a Declaration on the Protection and Promotion of the Rights of Migrant Workers and created a committee to oversee its implementation. The Declaration stipulated the responsibilities of countries of origin and those of destination in protecting the fundamental human rights of migrants, creating sustainable livelihoods for their citizens and improving recruitment practices.

54. In Latin America, recent Ibero-American summits have recognized the development potential of international migration as well as the critical role of dialogue and cooperation in promoting the protection of the human rights of migrants. In May 2008 the Ibero-American General Secretariat (SEGIB) convened the Ibero-American Forum on Migration and Development in Cuenca, Ecuador. The Forum drafted a Plan of Action to implement the commitments made at preceding summits and to ensure respect for the human right of migrants.

55. The Common Market of the South (MERCOSUR) is committed to achieving economic integration and trade liberalization through the free circulation of the factors of production. MERCOSUR recognizes the contribution that migrants have made to development in the region. It has promoted the regularization of the status of migrants in an irregular situation and underscores the need to protect the human rights of all migrants wherever they find themselves.

56. The Organization of American States, at a special session on migration and development held in May 2007, pledged to develop a comprehensive regional plan aimed at promoting the beneficial effects of international migration, protecting the rights of migrants and facilitating regular migration through cooperative arrangements, involving both Government authorities and civil society organizations.

B. Regional consultative processes³

57. Regional consultative processes are informal and State-led. They bring together Government representatives, representatives of selected international organizations and, in some instances, representatives of civil society to facilitate dialogue, promote cooperation and foster the exchange of information on migration issues. In part as a response to the High-level Dialogue, more regional processes are focusing on migration and development.

58. Among those that do, the Migration Dialogue for Southern Africa and the Migration Dialogue for Western Africa focus on migration and health, capacity-building and realizing the benefits of migration for development. The Inter-Governmental Authority on Development in Eastern Africa launched a regional consultative process in May 2008 to follow up on recent policy initiatives of the African Union and to assist participating States in incorporating the migration dimension into their national development plans.

³ The present section draws upon the working paper entitled "Regional consultative processes at the interface of migration and development", prepared for round-table session 3.3 of the second meeting of the Global Forum on Migration and Development (mimeo).

59. In Europe and Northern Africa, the regional Ministerial Conference on Migration in the Western Mediterranean ("5+5 Dialogue") has been focusing on co-development and the contribution of transnational communities to countries of origin as well as on the rights of migrants. The Dialogue on Mediterranean Transit Migration considers the role of official development assistance in addressing the root causes of international migration on a regular basis.

60. In Asia, the Ministerial Consultations on Overseas Employment and Contractual Labour ("Colombo Process") aims to optimize the benefits of temporary labour migration for countries of origin by protecting migrant workers and promoting legal migration through capacity-building and intergovernmental cooperation. The Abu Dhabi Dialogue, which has been launched recently to bring together participants in the Colombo Process with the Gulf Cooperation Council, is focusing on ways to maximize the developmental impact of temporary labour migration on both countries of origin and those of destination.

61. In the Latin America and Caribbean region, the South American Conference on Migration ("Lima Process") and the Regional Conference on Migration ("Puebla Process") have been focusing on ways to improve the contribution of migrants to countries of origin, the protection of the human rights of migrants and ways to facilitate remittance transfers.

62. A second group of regional processes includes those that have considered migration and development issues only on an ad hoc basis. The Cross-Border Cooperation Process ("Söderköping Process"), which is primarily concerned with improving border management in Central and Eastern Europe, discussed remittances and their development impacts at a workshop in 2007. The Intergovernmental Consultations on Migration, Asylum and Refugees, which normally addresses asylum and migration policies from the perspective of receiving countries, recently organized a workshop on policy coherence that included consideration of remittances, the role of expatriate communities and the benefits of circular migration. The Inter-Governmental Asia-Pacific Consultations on Refugees, Displaced Persons and Migrants also considers issues relating to migration and development on an ad hoc basis.

63. Lastly, some regional processes promote good governance on migration without considering its development dimensions. Thus, the Ministerial Conference on People Smuggling, Trafficking in Persons and Related Transnational Crime ("Bali Process") focuses primarily on ways to prevent or combat migrant smuggling and human trafficking. The "Budapest Process", which focuses mainly on migration control, including border management, return and readmission of migrants in irregular situations, recently organized a meeting on labour migration, integration and reintegration, although the meeting did not explore the benefits of such migration issues for development.

C. Overall evaluation

64. Since the 2006 High-level Dialogue on International Migration and Development, intergovernmental cooperation in the area of migration has increased markedly. Various regional intergovernmental groups and consultative processes have been focusing increasingly on the development dimensions of international migration, although they have done so in different ways and with different

perspectives. The need to understand better the issues raised by international migration in relation to development, to exchange experience and know-how, and to build common positions has propelled more countries to join regional groups and some regional groups to cooperate with each other. It seems that the High-level Dialogue served as a catalyst to generate considerable activity in this area.

65. Many Governments engaging in regional processes are, however, still facing the challenge of ensuring implementation of the plans adopted and the decisions taken. Effective follow-up of declarations, plans of action and other non-binding commitments depends crucially on the political will of each and every Government, on the availability of resources and on the existence of appropriate institutional and human capacity to implement or adapt, as necessary. Regional groups that have strong institutions and adequate resources are better able to achieve tangible progress. The European Union, for instance, is able to carry through the programmes its members approve. The Puebla Process has also been able to deliver on many of the activities to which Governments committed in its first Plan of Action on Migration and Development.

66. Regional consultative processes established more recently have been less successful in following up on commitments made. The consultative nature of those processes does not provide the strong institutional support that some Governments require to follow through on commitments made. Although participation in the regional processes is, in itself, a way of building capacity among participating States, some of them require additional support to strengthen their human resources in the area of migration.

67. The consideration of migration issues by regional economic communities is not new. Yet few of them have achieved true integration with respect to migration. Though some advances may have been made recently in facilitating the travel of citizens between members of some regional economic communities, true freedom of movement does not exist in most of them. On the positive side, most regional economic communities have been reaffirming that migration can have benefits for development, a perspective that should prove useful in guiding a more open and constructive debate of the issues.

68. In sum, there is a wide variety of experiences on how and to what extent regional groups or processes have advanced in addressing the development dimensions of migration. Cooperation in this area is definitely on the rise, but it is too early to tell whether it will yield more systematic and successful policy interventions to promote the beneficial aspects of migration on development. Nevertheless, the evidence suggests that increasing flows of development assistance are being devoted to address migration issues. If this trend continues, change is sure to follow. To ensure that it is beneficial, it may be useful to encourage more comprehensive reporting from the various cooperation mechanisms and an assessment of the results achieved.

VI. Conclusions

69. Nearly all participants in the High-level Dialogue expressed the need to continue intergovernmental dialogue at the global level. The Dialogue proved that international migration and development can be debated constructively in the United Nations. There was widespread support for an informal, State-led, consultative global forum, as proposed by the Secretary-General.

70. The first meeting of the Global Forum on Migration and Development, organized by the Government of Belgium, was successful on many counts. Representatives of over 150 Member States participated. Their debates added depth to the discussion of the issues that the Dialogue had addressed and sought practical ways of responding to the problems identified. It established a network of national focal points in charge of coordinating positions and action at the national level, and developed its own operating modalities. The Government of the Philippines is organizing the second meeting of the Global Forum and the Governments of Greece and Argentina have offered to host the third and fourth meetings, respectively.

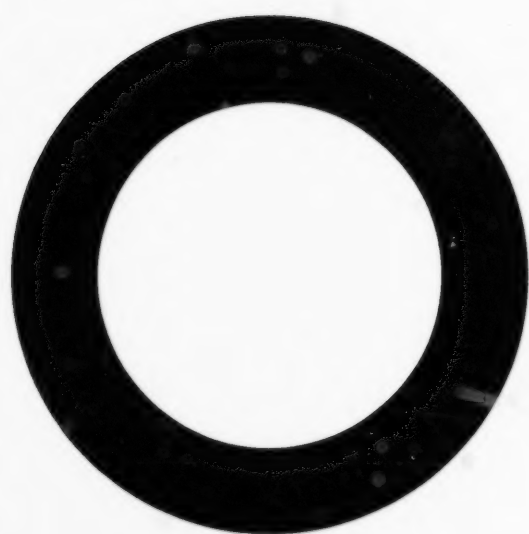
71. Suggestions made by Member States regarding appropriate follow-up to the High-level Dialogue within the United Nations include: (a) to continue including an item on international migration and development on the agenda of the General Assembly; (b) to give special consideration to the ideas and initiatives being generated by the Global Forum on Migration and Development in the Assembly's deliberations on international migration and development; (c) to conduct periodically a high-level dialogue in the Assembly in order to take stock of the advances made by Governments, the United Nations system and other international or intergovernmental organizations at the regional, interregional and global levels.

72. Member States underscored that follow-up to the Dialogue should encompass actions to implement the guidance emanating from the Dialogue. They considered that a key element of follow-up was the implementation of new initiatives through existing multilateral structures, including the international financial institutions. In their view, any follow-up by the General Assembly should take account of the activities of the multilateral system, including those of the agencies, funds and programmes of the United Nations system.

73. Relevant bodies, agencies, funds and programmes of the United Nations system and other relevant intergovernmental organizations continue to address the issue of international migration and development by carrying out a wide range of activities within their respective mandates. These activities include building capacity, assisting in the formulation and implementation of migration policies, and promoting practices that maximize the positive impact of migration on development and minimize its negative outcomes.

74. Intergovernmental cooperation in the area of migration has increased markedly. Regional intergovernmental groups and consultative processes have increasingly been focusing attention on the development dimensions of migration, albeit in different ways and from different perspectives. Levels of development assistance directed to migration and development projects appear to be rising.

75. The implementation of commitments and plans of action drafted by regional groups or processes remains a challenge. More comprehensive reporting from the various cooperation mechanisms and an assessment of the results achieved would be useful. Better monitoring of financial resources, in particular those provided through development assistance, for the implementation of international migration and development activities is desirable.





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International migration and development

Report of the Secretary-General

Corrigendum

The corner notation on document A/63/265 should read as above.





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Report on the activities of the Office of Internal Oversight Services

Comprehensive audit of the capital master plan

Report of the Office of Internal Oversight Services

Summary

Pursuant to paragraph 15 of General Assembly resolution 62/87, the Office of Internal Oversight Services (OIOS) has conducted a comprehensive audit of the capital master plan.

The scope of this comprehensive audit focused on the structure of the Office of the Capital Master Plan, compliance with United Nations regulations and rules on procurement and contracting, adherence to the terms of contracts, the internal controls and processes in place to properly manage the project, and other high-risk areas.

The General Assembly requested OIOS to ensure effective audit coverage of the capital master plan and to submit to it all oversight reports related to its implementation. The OIOS strategy to provide effective audit coverage of the capital master plan is outlined in section III of the present report.

The audit identifies the main risks to the capital master plan as: possible delays resulting from procedural inflexibilities; cost increases due to changes to strategy and scope; and inadequate budgetary provision for associated costs.

Overall, OIOS found that many of the activities of the Office of the Capital Master Plan were adequately controlled. For example, the Office has the necessary skills to perform the diverse functions that are necessary, but it is not overstaffed. Also, it is clear that substantial efforts have been made to develop and apply suitable project management procedures.

* A/63/150.



OIOS identified some areas in which controls could be improved and has made recommendations to strengthen procedures and contribute to efficiencies. The most important of the recommendations relates to avoiding delays by streamlining procurement procedures for contractual amendments, that is, giving the Executive Director the authority to spend up to a pre-approved contingency sum for each guaranteed maximum price contract. OIOS recognizes the need to establish adequate controls for such a procedure, and therefore recommends that a committee be established to carry out an ex post facto review of contractual amendments and change orders over \$200,000.

Associated costs are those costs not budgeted or managed by the Office of the Capital Master Plan. It is estimated that associated costs related to the capital master plan for the period 2008-2013 amount to approximately \$194 million. There is a need to identify and monitor all associated costs to ensure that adequate funding continues to be available for the duration of the capital master plan. It is also necessary to determine which associated costs should be attributed to the capital master plan project, as opposed to those costs which should be funded from regular departmental budgets.

Recommendations are made with regard to succession planning, management coordination, delegation of procurement authority, associated costs, performance targets and stakeholder management.

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I. Introduction

1. The General Assembly, in its resolution 62/87 of 10 December 2007, requested the Secretary-General to entrust OIOS to conduct a comprehensive review focusing, *inter alia*, on the structure of the Office of the Capital Master Plan. In response, OIOS undertook a review of the structure of the Office, compliance with United Nations regulations and rules on procurement and contracting, adherence to the terms of contracts, the internal controls and processes in place to properly manage the project, and other high-risk areas.

2. The capital master plan has existed since 8 February 2000, when the General Assembly appropriated \$8 million for the preparation of a comprehensive design plan and detailed cost analysis. The current budget is \$1.877 billion. There have been a number of changes of strategy and it is now planned to proceed with accelerated strategy IV, in accordance with General Assembly resolution 62/87. This strategy requires that most of the United Nations employees currently in the Secretariat building move to off-site swing space until renovation works are completed by mid-2013.

3. OIOS conducted a risk assessment of the Office of the Capital Master Plan in early 2008. A risk-based audit approach capitalizing on this prior work was adopted in the conduct of the audit. Further information on the risk assessment of the capital master plan is provided in section III below.

4. OIOS analysed documentation available in the Secretariat. Senior members of the capital master plan team were interviewed, and the organization and governance processes were reviewed to identify whether omissions, skills shortages or limited resources might impact on the delivery of capital master plan objectives. Senior staff outside the capital master plan team whose organizational roles impact the project delivery were also consulted. OIOS also reviewed a sample of the capital master plan procurement cases handled by the Procurement Division. The comments of management were taken into account in the preparation of the present report and are shown in *italics*.

II. Findings

A. Organization and structure of the Office of the Capital Master Plan

1. Staffing and available skills

5. The Office of the Capital Master Plan is headed by an Executive Director who was appointed at the end of July 2007. This was after a period of more than one year when the post had been unfilled at the Assistant Secretary-General level. Officials interviewed by OIOS noted a positive effect from the appointment, and the position is seen as important to the success of the plan. There is a risk that the outcome of the capital master plan could be adversely affected if the Executive Director did not remain in the post until the conclusion of the project. Preparation of a formal succession plan would help to mitigate this risk.

6. Other key positions in the Office of the Capital Master Plan include the Programme Director, the Chief of Design and Construction, and the Chief of

Administration and Communication. The post of Programme Director is currently vacant and will be filled by the current Director of the Facilities and Commercial Services Division, Department of Management. The Programme Director will then report directly to the Executive Director. The Chief of Design and Construction and the Chief of Administration and Communication will report to the new Programme Director.

7. The Office of the Capital Master Plan has 19 authorized temporary positions: 10 at the Professional level and 9 at the General Service level. All 19 temporary positions had been filled at the time of the audit. The capital master plan budget also funds 10 positions in other departments supporting capital master plan activities, including the Office of Legal Affairs, the Department of Safety and Security, the Information Technology Services Division and Procurement Division of the Office of Central Support Services, and OIOS.

8. The United Nations contracts consultants to provide services, including project and construction management, design, security and relocation. The consultants play an important role in providing skills and staff resources that would not otherwise be available. As at the end of April 2008, approximately \$135.5 million had been committed to consultancy services. Of this total, about \$77 million was committed to design consultants, \$49.1 million to project and construction management consultants, and \$9.4 million to other consultancy services.

9. OIOS is of the opinion that all required skills exist in the Office of the Capital Master Plan and that the Office is not overstaffed. The necessary skills comprise project management, design and construction, finance and cost control, legal, procurement, administration and scheduling. As the construction phase of the capital master plan advances, the demands on some staff members will increase. Some flexibility in providing resources can be arranged by utilizing additional staff from the programme management consultancy on a short-term basis, if necessary.

10. The United Nations has also selected Skanska USA Building Inc., a subsidiary of Skanska AB, Stockholm, as pre-construction services manager for the pre-construction phase of the capital master plan. Skanska will continue in the role of construction manager during the construction phase, as determined by the United Nations. The roles of pre-construction services manager and construction manager have been specified in detail in two respective agreements between the United Nations and Skanska. In simplified terms, the pre-construction role of Skanska is to offer support and advice with regard to constructability of design, sequencing and scheduling, procurement, value engineering, estimating, labour, logistics and procedures. As construction proceeds, Skanska will organize and direct the complete construction of work parcels in accordance with guaranteed maximum prices (see paras. 20-21 below).

2. Potential for improving coordination

11. There is a risk of delays when a number of individuals with differing skills are tasked to work as a team on a major construction project, such as the capital master plan. The Office of the Capital Master Plan has taken steps to counter this risk by arranging for staff from the Procurement Division and the Office of Legal Affairs to be seconded full time to the capital master plan. This has enhanced the effectiveness of the team. For example, procurement officers attend the weekly staff and coordination meetings. However, since work requirements are not always well

communicated, there are still occasions when the procurement staff have little visibility of their forthcoming workload and the demands that will be made upon them from week to week. This limits the ability of the procurement staff to plan ahead and take a more strategic view.

12. It is important that the Controller be kept fully briefed of the financial position of the capital master plan, so the Office of the Capital Master Plan has arranged for staff of the Office of Programme Planning, Budget and Accounts to be briefed each month by the Chief of Administration and Communication and the Finance and Budget Officer. It would be beneficial if a member of the Office of Programme Planning, Budget and Accounts also attended the monthly meetings held by the Office of the Capital Master Plan to discuss the status reports prepared by the programme management consultants. *The Office of Programme Planning, Budget and Accounts reported that, since the preparation of the present report, it has been agreed that it be represented at the monthly meetings.*

B. Decision-making: a need for improving justifications for change

13. The complexity and planning of a major construction project over a number of years means that sometimes changes have to be made to react to a dynamic environment. The capital master plan has been subjected to a number of changes, partly because of the lengthy preparation time, changes in leadership and in scope, and also in reaction to market forces. Often, major changes have led to a succession of more minor changes. Examples include the succession of decisions changing office space for Professional staff from predominantly open plan to individual offices, and back again to open plan. There have been changes in scope because of revisions to security and sustainability requirements, and value engineering.

14. Radical changes have occurred to the strategy of how to phase the works and the consequential staff movement into swing space. On 10 December 2007, the General Assembly adopted resolution 62/87, in which it endorsed the accelerated strategy IV for completing the project over a shorter timespan. This change to the accelerated strategy came soon after the appointment of the Executive Director and the selection of the pre-construction services manager. OIOS is of the opinion that this serves to reinforce the need for continuity of leadership and succession planning within the Office of the Capital Master Plan.

15. Examination of a sample of procurement files showed that changes in strategy have resulted in costs as well as benefits. It is not always possible to take decisions on the basis of complete knowledge, because the dynamics are in constant flow. To put this in context, as at the end of April 2008, over 130 contractual amendments had been issued and many of them required the design consultants to adjust their schedules and designs to take account of new developments. Further contractual amendments are in the pipeline.

16. It is difficult in the time available to capture all of the implications of changes and contractual amendments in terms of quantified costs and benefits. Delay is costly, and this must be taken into consideration so that decision-making is timely. However, OIOS is of the opinion that the information presented to decision makers in some instances could have been more comprehensive when justifying recommended courses of action. An example of this was the justification provided for the single-phase accelerated strategy. The projected increase in professional fees

for redesign associated with this strategy did not include additional changes in scope for value engineering, and there was insufficient provision for costs related to swing space.

17. In view of the above, OIOS is of the opinion that the Executive Director of the Office of the Capital Master Plan, with the support of other major stakeholders, should make a concerted effort to keep changes in strategy and scope to a minimum. The consequences of any further changes in project strategy and scope, including the related contractual amendments, also need to be identified and justified using the best available cost-benefit estimates.

C. Compliance with the United Nations regulations and rules on procurement and contracting

18. At United Nations Headquarters, the procurement authority currently resides, as delegated from the Under-Secretary-General for Management through the Controller, with the Procurement Division. No other office within the Secretariat is authorized to purchase, commit the United Nations to contractual obligations, or authorize, change or amend any contract or purchase order, unless an exception is specifically granted in writing. This is in keeping with the general principle of segregating procurement duties from requisitioning staff.

1. Contracts used in the capital master plan

19. Until the present time, the procurement of consultancies for the capital master plan has been undertaken using United Nations procedures and standard types of contract, except for the pre-construction and construction manager agreements which were specifically developed based on commercial templates of contracts used in the United States of America. The United Nations is a named party to these contracts.

20. As the construction phase gets under way, the United Nations will enter into guaranteed maximum price contracts with its current construction manager, Skanska, or, at its choosing, with any other construction firm that offers better value, for parcels of the total construction works. Entering into guaranteed maximum price contracts will be at the option of the United Nations. A guaranteed maximum price is the ceiling price for each parcel of work beyond which the United Nations is not obligated to compensate the construction manager. However, changes made by the United Nations to the scope of works or schedule during a contract would probably result in a need to increase the guaranteed maximum price. This is further discussed in paragraphs 35 and 36 below.

21. It is estimated that there will be around 30 of these contracts. For each guaranteed maximum price contract, the construction manager will procure the services of a number of trade contractors for elements of the work. The United Nations will not be a party to these trade contracts. The construction manager will use its own forms of contract, and trade contracts will be between the construction manager and the trade contractors.

2. Application of United Nations regulations and rules to the capital master plan: the need to avoid delays

22. It was a common observation from officials within the Office of the Capital Master Plan and other departments that the current rules and regulations were not designed to accommodate such major capital works as the capital master plan. Concern was expressed that the lengthy approval procedures required for procurement in case of contractual amendments might cause costly delays to the project schedule and consequential contractual claims. OIOS recognizes the need to avoid costly delays, and that rules to promote control could conflict with the stated principle of the United Nations of obtaining best value for money.

3. Actions taken to help avoid delays

23. The Executive Director has received support from senior management and has been proactive in promoting an expeditious decision-making culture. Times taken to issue change orders have been reduced from 16 weeks to 4 to 8 weeks. Also, the Under-Secretary-General for Management approved (initially for six months) an increase in the delegation of authority to the Chief of the Procurement Division in regard to amendments to contracts relating to the capital master plan that had a value of \$2.5 million or less. This was subject to review on an ex post facto (retroactive) basis by the Headquarters Committee on Contracts. The Chairman of the Headquarters Committee on Contracts subsequently expressed concerns that the ex post facto reviews were not consistent with the requirements of financial rule 105.13 of the Financial Regulations and Rules of the United Nations.

24. On 25 February 2008, the Executive Director wrote to the Under-Secretary-General for Management and the Controller, as follows:

As we move from design to construction, the scale of amendments will grow significantly. I recommend the extension of the expedited procurement process, but strongly recommend that the amount be increased from \$2.5 million or less to \$5 million or less per amendment.

The increase requested was based on the Executive Director's previous professional experience in relation to large projects and the pre-construction manager's projection of increasing procurement needs, and was subsequently approved by the Under-Secretary-General for Management on 11 March 2008.

25. Recognizing the need to maintain adequate internal control in the light of the requested increase and the representation from the Headquarters Committee on Contracts, the Controller, on 3 March 2008, formally requested OIOS to conduct a periodic review of the processes that lead to contractual amendments in order to address any potential weaknesses. OIOS replied on 20 March 2008, affirming that the 2008 risk-based audit workplan recognized the risks presented by procurement associated with the capital master plan and the high priority that should be given to the periodic audit of processes associated with contractual amendments. (For further information on the audit planning process and the 2008 audit workplan, see sect. III below.)

4. Actions needed: ex post facto reviews of contractual amendments, revised procedures to avoid delays and revisions to delegations of authority

26. It should be recognized that OIOS will not examine every contractual amendment or change order as a matter of routine audit procedure; this presented the Department of Management with the following alternatives in relation to internal control:

(a) Amend the scope of the Headquarters Committee on Contracts to include ex post facto reviews for the purpose of identifying any weaknesses in the process which would lead to contractual amendments. This would require a revision of rule 105.13;

(b) Institute an alternative procedure for conducting ex post facto reviews. OIOS is of the opinion that this would be the best option for the capital master plan.

27. The risk of delays, and the accompanying substantial extra costs, is a major risk to the successful outcome of the capital master plan. Decisions sometimes have to be taken quickly during construction and may require a contractual amendment or change order, with significant extra costs. Failure to make such decisions speedily would almost certainly result in delays to the execution of a contract, with likely contractual claims and consequential effects upon interdependent contracts. Under current procedures, all contractual amendments are referred to the Procurement Division for approval before they can be made. A more flexible approach, allowing the Executive Director to authorize change orders within a contingency of up to, say, 10 per cent of the guaranteed maximum price with the cost of any single change order not to exceed a predefined monetary level, should significantly reduce the risk of delays. It would be possible to adopt this way of working within the existing United Nations governance framework as the contingency would be pre-approved by the Procurement Division.

28. The Controller has emphasized the need for adequate control to be exercised over the contingency sums, especially because the budget is under extreme pressure. Expected controls would include professional advice being taken as required (probably from the consultant programme managers) and accurate records being kept of how the contingency sums were spent and justification for that expenditure. If accepted, the new proposed procedure for conducting ex post facto reviews (see para. 26 (b) above) would apply for the larger contractual amendments and change orders (over \$200,000) covered by contingency sums. This proposal balances the need for control and accountability with the stated principle of obtaining best value for money.

29. While not of the same high priority as the previous proposed actions, it may also be appropriate to increase the amounts that procurement staff employed full time on the capital master plan are authorized to approve, which currently stand at \$50,000 or \$75,000, depending on the grade of the staff member concerned. This would promote a culture of timely, day-to-day approvals being given by the procurement staff most knowledgeable in regard to the capital master plan.

5. Role of the construction manager

30. As discussed in paragraphs 20 and 21 above, the construction manager will procure the services of trade contractors. The trade contracts will be between the construction manager and the trade contractors. Therefore, the United Nations is a

party to the guaranteed maximum price contracts with the construction manager, but not to the trade contracts.

31. The construction manager is an international firm which agrees and aspires to the principles expressed in the United Nations Global Compact. The construction manager will pre-qualify contractors for their suitability to bid for capital master plan works. The websites of the United Nations capital master plan and the Procurement Division, as well as the construction manager's capital master plan website, are hyperlinked to one another. Forthcoming contracts with an estimated value exceeding \$50,000 are posted on the construction manager's website, and are easily accessible through the hyperlinks on the capital master plan and Procurement Division websites, through which expressions of interest are invited from potential contractors. There are instructions on how an interested firm should apply for pre-qualification registration. The United Nations will have the right to reject or request the inclusion of firms, if appropriate.

32. In the view of OIOS, it is not appropriate to impose all of the requirements of the *United Nations Procurement Manual* upon the construction manager. For example, the Procurement Manual requires 25 bidders for contracts estimated to exceed \$5 million, 20 bidders for contracts of between \$1 million to \$5 million, and 15 bidders for contracts ranging from \$200,000 to \$1 million. This does not conform with normal construction practice which requires fewer bidders. However, the construction manager has assured the Office of the Capital Master Plan that the underlying principles contained in the Procurement Manual will be adhered to. As at the end of April 2008, procurement procedures had been drafted by the construction manager; they will be incorporated in the project manual when they have been approved by the Procurement Division.

6. Vendors from developing countries: a plan should forecast procurement opportunities

33. The General Assembly has requested the Secretary-General to ensure that, in the implementation of the capital master plan, procurement opportunities are increased for vendors from developing countries and countries with economies in transition. It will not be possible for the labour elements of contracts to be undertaken by overseas vendors because of the tight regulation of the New York construction industry and the influence of United States labour and unions. However, some materials might come from emerging markets, and the curtain wall was given as an example where this might be practicable. A foreign supplier could ally itself with a New York partner which would carry out the installation. It was further stated that, for large procurements, the United Nations has commenced sending letters to permanent missions of Member States, notifying them of upcoming works requiring expressions of interest.

34. Although action has been initiated to comply with the request of the General Assembly, the Office of the Capital Master Plan has not yet documented a specific action plan and has not requested the construction manager to produce one. Such a plan would forecast possible procurement opportunities for vendors from developing countries and countries with economies in transition, and specify the necessary actions and time frames.

D. Budgetary and financial control issues

35. There will not be a single guaranteed maximum price for the entire construction works from the outset. It would not have been practicable to seek guaranteed maximum price bids for the entire project because contractors would not have been able to quantify uncertainties over the lengthy duration of the project. Contractors would not have been able to accept such a major risk, or would have imposed punitive prices. Construction will be organized within the context of around 30 individual guaranteed maximum price contracts between the United Nations and the construction manager.

36. The risk that the sum total of the guaranteed maximum prices of all trade contracts could exceed the budget should be understood by all stakeholders. The construction manager will aim to mitigate this risk by identifying areas of the capital master plan in which value engineering techniques can be applied. Value engineering is the process of reviewing the objectives of the project and actual design work, and finding ways of achieving the same objectives at a lower cost.

37. The figures in table 1 are extracted from the status report prepared by the consultant programme managers for the period ended 31 March 2008. They do not take into account projected savings from the recent value engineering exercise, which will not be reflected until the drawings have been revised.

Table 1

Extract from the status report for the period ended 31 March 2008

<i>Estimated final costs as at 31 March 2008 (United States dollars)</i>	
Renovation	
Construction	964 624 672
Contingencies	170 865 668
Professional fees and management costs	262 891 928
Forward pricing escalation	277 523 593
Subtotal	1 675 905 861
Swing space	
Office	277 841 744
Library	2 714 066
Conference	110 347 954
Contingency	0
Subtotal	390 903 764
Rounding to align with reporting figures	375
Estimated total project final costs	2 066 810 000
Approved budget for capital master plan	1 876 700 000
Projected overexpenditure	190 110 000

38. The projected overexpenditure and shortfall in funding therefore is \$190,110,000, which is the difference between the approved budget and the most recent estimated total project final costs. However, there will be some variance between these figures because of the following factors that are currently not possible to fully quantify:

(a) Applying value engineering techniques should give opportunities for cost savings. *The Office of the Capital Master Plan stated that the cost impact of the value engineering decisions has not yet been reflected in an estimate of revised design work. This estimating effort is under way, and is projected to exceed \$100 million. Efforts will continue to increase opportunities for cost savings;*

(b) Potential additional costs for blast protection;

(c) Contractual amendments that are under review or may be forthcoming;

(d) Decisions still have to be taken by the General Assembly on associated costs to the capital master plan and their treatment (see paras. 41-42 below).

39. Given the current level of projected overexpenditure, it will be a major challenge to bring the capital master plan back within budget. There will be a limit to the cost reductions to be gained by value engineering. There is a risk that applying value engineering too rigorously could impact adversely on the planned functionality or whole-life costs of the building.

40. The Office of the Capital Master Plan has adopted a risk management approach. A risk register has been compiled by the consultant programme managers and risks are reviewed at periodic meetings. To further enhance the risk management approach and the maintenance of the project risk register, the consultant programme managers could provide a separate schedule of risks and their probable outcomes and cost implications as part of the monthly summary. In this way, management would be better apprised of the projected expenditure in relation to the approved budget.

41. There are a number of costs which are referred to as associated costs, that is, costs that are not budgeted and managed by the Office of the Capital Master Plan. The report of the Secretary-General on associated costs related to the capital master plan (A/62/799) estimated the associated costs related to the capital master plan at \$193,751,700 for the period 2008-2013. The report has not yet been taken up by the Fifth Committee because of the need to focus on other time-sensitive issues but is expected to be considered by the General Assembly at its sixty-third session. The Secretary-General wrote to the President of the General Assembly on 5 June 2008, stating that he intended to enter into limited commitments for associated costs for the balance of 2008 pending the review of the full proposals by the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee during the main part of the sixty-third session of the General Assembly. The Secretary-General identified \$9.5 million of associated costs related to the capital master plan through to the end of 2008. OIOS fully supports the action taken by the Secretary-General in the interest of avoiding slippage in the capital master plan.

42. Associated costs should be funded by departmental budgets as they will be managed by departments that are independent of the capital master plan. For example, current broadcasting equipment is obsolete and its replacement was deferred. This was because the installation of new equipment could not be justified

in advance of the execution of the capital master plan. It will probably not be possible to absorb all of these associated costs within the current capital master plan project. Some of the required expenditures, such as for security, are now on the capital master plan's critical path, and the situation needs to be managed so that necessary funds can be committed from the appropriate departmental budgets when required. *The Office of Programme Planning, Budget and Accounts reported that a special subfund, entitled Capital Master Plan Associated Costs, has been established and that the first set of allotments have been issued. This will facilitate separate recording and accounting of expenditure relating to associated costs.*

E. Other issues identified by the audit

1. Project manual should be completed

43. The agreement with the construction manager requires that a project manual be prepared. At the end of April 2008, some of the procedures to be included in the manual had not been finalized or approved; however, work on the project manual is nearing conclusion. OIOS considers the manual to be a key control document and it is important that it be completed expeditiously and kept up to date in accordance with the agreement.

2. Need to identify and monitor a range of performance indicators

44. The consultant programme managers produce a status report each month. The capital master plan team is working with the consultant programme managers to have the report produced in a revised format, with key financial and schedule performance indicators clearly stated. OIOS endorses the need for this as an important source of management information which can be used for trend analysis.

45. It is important to clearly incorporate such indicators, as construction commences, into a periodic report and monitor them closely. This enables tangible achievements (or shortfalls) to be reported to the most senior levels of management and aids post-construction review. It also enables tactical changes if the project managers need to initiate actions to ensure that objectives are achieved. In addition to expenditures, it would be useful to monitor value engineering savings, the percentage of professional fees against construction costs, and sustainability targets, such as projected comparative fuel and water consumption. Although this reporting was taking place, the format could be made more suitable for senior management purposes.

3. Stakeholder involvement

46. Stakeholders in the capital master plan include everyone affected by the project, from planning to completion: Member States, members of the capital master plan team, staff who will occupy swing space, end-users, neighbouring businesses and institutions, commuters, construction workers, emergency services and many others. The successful outcome of a project can be compromised if stakeholders are not managed effectively. The Executive Director has made efforts to address staff concerns at meetings and information has been made available through United Nations internal communications, including the Intranet. Press statements have also been issued periodically.

47. *The Office of the Capital Master Plan provided the following examples of the communications and public outreach activities that it has undertaken:*

(a) *The Office of the Capital Master Plan maintains a website that provides information on the project for all internal and external stakeholders. Monthly articles are also published and archived on the United Nations Internet webpage, iSeek;*

(b) *Since the submission of the most recent annual report to the General Assembly, three town hall meetings have been held. The capital master plan has also been on the agenda of numerous departmental town hall meetings;*

(c) *Other arrangements for internal stakeholders, including assisting in orientation programmes for new staff; coordination with client departments and briefing the Headquarters Committee on Contracts;*

(d) *Effective liaison with and provision of information to, for example, Member States, community groups, the architectural and construction community and local managing agents for major apartment complexes;*

(e) *Relationships with the media are considered a priority. Since the submission of the most recent annual report to the General Assembly, the Executive Director has appeared before the United Nations press corps three times, and has responded to almost 80 requests for interviews or information;*

(f) *Presentations on sustainability have been made to key audiences from the construction industry and the architectural community.*

48. *It is apparent that some stakeholder issues would have been better resolved at an earlier stage. OIOS was advised that stakeholders sometimes have not appreciated the need to act and that the senior management of some departments lost focus in carrying out their supporting roles because of changes to the project strategy and schedule. As a result, some decisions are now on the critical path and this would not have been the case if there had been more urgency earlier on. For example, at the end of April 2008, final decisions had not been taken as to which departments and offices would be moving to which locations. The Office of the Capital Master Plan stated that certain decisions had been made regarding departmental moves prior to the accelerated strategy IV, as approved in December 2007 (e.g., Information Technology Services Division move to Long Island City, Department for General Assembly and Conference Management move to the Albano Building on 46th Street). However, the new accelerated strategy IV required additional extensive planning and programming, as well as decision-making. Furthermore, United Nations department composition and headcounts are a moving target. In the circumstances, making such decisions on a just-in-time basis has merit.*

49. *A stakeholder management plan to identify stakeholders, their aspirations and how the project is addressing them has not yet been prepared.*

III. Strategy to provide effective audit coverage of the capital master plan

50. OIOS has appointed two qualified auditors to the positions of Section Chief and Internal Auditor in the Capital Master Plan Audit Section. Both of these auditors are dedicated full-time to auditing the capital master plan operations.

A risk-based auditing approach is being adopted

51. In January 2008, discussions were held with the Executive Director, senior members of his team and other senior United Nations staff whose responsibilities will affect the outcomes of the capital master plan. Information was gathered and used to undertake a comprehensive risk assessment. This enabled OIOS to gain an understanding of existing organizational relationships, risks, controls and process issues. OIOS also reviewed the risk register that had been independently prepared by the Office of the Capital Master Plan.

52. Based on this risk assessment exercise, 93 risks were identified and entered into the OIOS risk register. Each risk was assessed as being of higher, moderate or lower risk, based on its perceived likelihood and impact.

53. The overall risk assessment for standard focus areas identified by OIOS is given in table 2. It is important to acknowledge that the risks are assessed as being generally high for the capital master plan owing to its complexity and high value, and the high impact that the Organization would suffer if any of the risks actually materialized. This is not a reflection on the efforts made by the Office of the Capital Master Plan to mitigate the risks. OIOS has not yet fully assessed the effectiveness of mitigation measures already in place, as this will be achieved through implementing the internal audit workplan.

Table 2
Assessed risk for focus areas

<i>Focus area</i>	<i>OIOS assessment of level of risk</i>
Strategic management and governance	Higher risk
Financial management	Higher risk
Procurement and contract administration	Higher risk
Logistics management	Higher risk
Programme and project management	Higher risk
Property and facilities management	Higher risk
Safety and security	Higher risk
Information technology management	Moderate risk
Conference and documents management	Moderate risk
Human resources management	Moderate risk

Major risks identified by the Office of Internal Oversight Services

54. Within a complex environment, most major risks relate to money, decision-making and delays. These three major risk areas are very much interlinked. Some representative major risks and measures and circumstances that may mitigate them are presented in table 3.

Table 3

Major risks that have been identified and are representative for the project^a

<i>Level of risk</i>	<i>Description of risk</i>	<i>Mitigation</i>
Higher	Lengthy United Nations procedures may delay the project	Executive Director appointed; Secretary-General support; construction manager
Higher	Procurement process may create delays in the schedule and lead to cost overruns	Capital master plan staff undertake early planning, recognizing the time needed for the procurement process; procurement staff dedicated full-time to capital master plan; increased delegation to the Chief of the Procurement Division
Higher	Sum of guaranteed maximum price contracts may exceed the budget	Value engineering; global estimates; stringent cost control; project management
Higher	Expanding scope and ever-changing requirements and expectations	Contracts demand design to budget
Higher	Reputation of the United Nations at risk if construction activities upset the community or other stakeholders	Stakeholder management plan to be prepared; press releases; consultants; proactive approach
Higher	Restriction on regular working hours could have an adverse effect on programme and construction flexibility. Claims for delay may result	Scheduling; Secretary-General support; stakeholder management
Higher	External market forces could cause budget to be exceeded or objectives of the project could be compromised	Tracking and review by construction manager; Executive Director; consultants
Higher	Unforeseen technical problems could arise with consequences for cost and programme	Surveys and testing
Moderate	Conflicting considerations among budget, preservation, sustainability and security may compromise outcome	Value engineering; specialist and coordinating meetings
Moderate	Fraud and corruption	Contractual terms; audit; consultants

<i>Level of risk</i>	<i>Description of risk</i>	<i>Mitigation</i>
Moderate	The General Assembly requirement that the project engages with the emerging markets may not be fully satisfied	Construction manager; Member States; websites
Moderate	Non-compliance with archives and retention policies at the departmental level may result in the loss of historical records or a loss of confidentiality	Stakeholder management plan; Intranet
Moderate	Late payments from Member States may create a cash flow problem	Approved use of letter of credit

^a Security risks are excluded.

A risk-based audit workplan has been prepared

55. The risk register was used to produce a risk-based audit workplan. The workplan covers the three-year period from 2008 to 2010 and aims to ensure that audits are directed towards areas that have been assessed as priorities in achieving the objectives of the capital master plan. These are usually areas with risks that may result in delays or cost escalations. Some audit areas may be repeated in more than one year because of the ongoing nature of the activities being audited, and the level of risk perceived by OIOS. Table 4 presents the audit workplan for 2008.

Table 4
Audit workplan for the capital master plan, 2008

<i>Assignment</i>	<i>Risks addressed</i>
Risk assessment of the capital master plan	Identification of risks associated with the capital master plan to enable the preparation of the risk-based audit workplan
Comprehensive audit of capital master plan	Mandated by the General Assembly to cover overall structure and procedures and associated risks
Audit of swing space document management	Non-compliance with archives and retention policies at the departmental level may result in the loss of historical records or loss of confidentiality
Audit of project budgeting and financial control processes	Budgetary provision may not be adequate. System for monitoring costs may not provide necessary management information. Payments may not reflect deliverables, or may not be authorized, correct and timely. Late payments from

<i>Assignment</i>	<i>Risks addressed*</i>
	Member States may create a cash flow problem. The sum of guaranteed maximum price contracts may exceed the budget
Audit of contract management (trade contracts)	Trade contracts may not be well controlled and deliverables may not comply with time and quality requirements. The sum of guaranteed maximum price contracts may exceed the budget
Audit of the value engineering process	Value engineering processes may result in project objectives being compromised. Conflicting considerations among budget, preservation, sustainability and security may compromise outcome.
Audit of provision of alternative offices, storage and other facilities	Swing space and interim arrangements may not offer adequate facilities for the continuation of United Nations activities in New York
Audit of security provisions applied to staff, site and assets during the execution of the capital master plan	Security risks
Audit of the approach to reducing energy consumption	Energy consumption may not reflect United Nations objectives. (This addition to the original workplan was initiated because of current unpredictable energy costs and the aim of the United Nations to reduce dependence on fossil fuels)

56. OIOS is confident that the actions taken will ensure effective audit coverage of the capital master plan in the short term. As the project proceeds further into the construction phases, it will be necessary to reassess the audit resources required for continuing to provide an adequate level of oversight. Internal audit reports related to the implementation of the capital master plan will be submitted to the General Assembly in accordance with its resolution 62/87.

IV. Recommendations

Recommendation 1

57. The Office of the Capital Master Plan should prepare a formal succession plan to ensure continuity in the capital master plan leadership in the event that the

incumbent Executive Director does not remain in the post until the conclusion of the project.

58. *The Office of the Capital Master Plan accepted recommendation 1.*

Recommendation 2

59. The Office of the Capital Master Plan should ensure that its managers maintain close liaison with the procurement officers to enable them to improve procurement planning, and to adopt a strategic approach. To help facilitate this, a procurement officer should attend the meetings held to discuss the monthly status reports prepared by the project management consultants.

60. *The Office of the Capital Master Plan accepted recommendation 2.*

Recommendation 3

61. The Controller, in consultation with the Executive Director, should appoint a representative to attend the coordination meetings held to discuss the monthly status reports prepared by the project management consultants.

62. *The Office of Programme Planning, Budget and Accounts and the Office of the Capital Master Plan accepted recommendation 3 and reported that action had been taken to implement the recommendation.*

Recommendation 4

63. The Office of the Capital Master Plan should identify the consequences of any further changes of project strategy and scope, including related contractual amendments, and justify changes using the best available cost-benefit estimates. The Executive Director should also make a concerted effort to keep changes in strategy and scope to a minimum, with the support of other major stakeholders.

64. *The Office of the Capital Master Plan accepted recommendation 4.*

Recommendation 5

65. The Department of Management should, in the absence of ex post facto reviews by the Headquarters Committee on Contracts, set up a committee that will carry out an ex post facto review of capital master plan contractual amendments and change orders priced at over \$200,000 for the purpose of identifying any related weaknesses in the process.

66. *The Office of Programme Planning, Budget and Accounts accepted recommendation 5 and stated that the exact modalities and terms of reference of the proposed committee would need to be developed to ensure that internal control measures were in place.*

Recommendation 6

67. The Controller should authorize a procedure whereby requisitions for the procurement of individual guaranteed maximum price contracts would include a separate contingency amount. The Executive Director should then be delegated to authorize contractual amendments and change orders costing up to that pre-approved amount.

68. *The Office of Programme Planning, Budget and Accounts accepted recommendation 6 and stated that the exact procedure, including the level of the contingency amounts, would need to be developed to ensure that internal control measures were in place.*

Recommendation 7

69. If the Controller authorizes a procedure that allows contingency amounts for individual guaranteed maximum price contracts, then the Executive Director of the Office of the Capital Master Plan and his team, in consultation with the Procurement Division, should document and implement stringent controls over those amounts.

70. *The Office of the Capital Master Plan and the Office of Programme Planning, Budget and Accounts accepted recommendation 7.*

Recommendation 8

71. The Controller should consider increasing the delegated authorities of the procurement staff assigned to the Office of the Capital Master Plan.

72. *The Office of Programme Planning, Budget and Accounts accepted recommendation 8 and stated that new levels of procurement authority for all procurement staff at Headquarters, including staff members assigned to the capital master plan, were under consideration.*

Recommendation 9

73. The Office of the Capital Master Plan should ensure that the construction manager, in consultation with the Procurement Division, prepares an action plan to promote possible procurement opportunities for contractors or vendors from developing countries and countries with economies in transition.

74. *The Office of the Capital Master Plan accepted recommendation 9.*

Recommendation 10

75. The Office of the Capital Master Plan should ensure that the construction manager finalizes the project manual as soon as possible, and ensure that it is kept up to date as the project proceeds.

76. *The Office of the Capital Master Plan accepted recommendation 10.*

Recommendation 11

77. The Office of the Capital Master Plan should ensure that the consultant programme managers provide a separate schedule of risks and their probable outcomes and cost implications as part of the monthly summary report.

78. *The Office of the Capital Master Plan accepted recommendation 11.*

Recommendation 12

79. The Office of Programme Planning, Budget and Accounts, in coordination with the relevant departments and advice from the Office of the Capital Master Plan, should identify and monitor all associated costs to ensure that adequate funding continues to be available for the duration of the capital master plan. They should

also determine which associated costs should be attributed to the capital master plan project, as opposed to those costs which should be funded from regular departmental budgets.

80. *The Office of Programme Planning, Budget and Accounts stated that recommendation 12 had been overtaken by events and should thus be withdrawn. The issue of associated costs had been addressed in the report of the Secretary-General on associated costs related to the capital master plan (A/62/799). OIOS agrees that the issue is addressed in that report, but it has not yet been fully considered and subjected to scrutiny by the General Assembly. The initiative taken by the Secretary-General is considered an interim measure, pending review by the General Assembly. Recommendation 12 is also consistent with the approach outlined in the report of the Secretary-General.*

Recommendation 13

81. The Office of the Capital Master Plan should establish key performance targets and monitor them as construction continues. Examples could include: financial targets, such as expenditures against budget; value engineering savings; percentage of professional fees against construction cost; and sustainability targets, such as projected comparative fuel and water consumption.

82. *The Office of the Capital Master Plan accepted recommendation 13.*

Recommendation 14

83. The Office of the Capital Master Plan should prepare a stakeholder management plan to identify the project stakeholders, define an approach to communications and provide key project information. Furthermore, the Executive Director and his team, in consultation with the Department for Public Information, should closely manage local community and host city expectations and concerns that could affect renovation progress.

84. *The Office of the Capital Master Plan accepted recommendation 14.*

(Signed) Inga-Britt Ahlenius
Under-Secretary-General for Internal Oversight Services



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Item 50 (d) of the provisional agenda*

Macroeconomic policy questions: commodities

World commodity trends and prospects

Note by the Secretary-General**

The Secretary-General has the honour to transmit, as requested by the General Assembly in its resolution 61/190, the present report on world commodity trends and prospects prepared by the secretariat of the United Nations Conference on Trade and Development.

* A/63/150.

** The submission of the present report was delayed by one week in order to include information on commodity market developments up to the end of the second quarter of 2008.



World commodity trends and prospects

Report prepared by the secretariat of the United Nations Conference on Trade and Development

Summary

The broad-based rise in commodity prices since 2002 accelerated over the past 18 months in all major commodity groups. While these commodity price increases have improved the prospects for growth and development of the commodity-producing countries, soaring fuel and food prices are raising concern about the implications for global economic growth and poverty reduction.

Trade in commodities is of vital importance to both exporting and importing countries. A large number of developing countries, in particular the poorest, depend on primary commodity exports. Those exports, so critical to employment and income levels, are a major source of Government revenues, accounting for a large share of their resources to be used for financing development. On the other hand, importing countries need predictable and affordable access to supplies of raw materials in order to maintain and fuel industrial growth and satisfy the consumption demands of their populations. Other concerns, particularly food security and energy security, are also important both to importing and exporting countries. Finally, the recent turmoil in commodity markets has underlined the shared interest of all countries in ensuring that commodity markets do not become a source of global macroeconomic instability and social and political upheaval.

Despite the progress made in narrowing differences in the Doha Round of trade negotiations over the past 18 months, including through a series of "mini-ministerial" meetings, one of which was held in July 2008, members of the World Trade Organization have not been able to reach agreement to move the agricultural reform agenda forward. Meanwhile, the existence of high agricultural prices undercuts the rationale for large farm subsidies and protection.

The commodity problematique and agreed actions to address the key contemporary trade and development problems associated with the commodity economy were comprehensively considered at the twelfth session of the United Nations Conference on Trade and Development (UNCTAD XII). The outcome of the conference on commodity issues is summarized in the present report.

Finally, actions to address the global food crisis have gathered pace. Building on the High-level Conference on World Food Security, held in Rome in June 2008, in July the High-level Task Force on the Global Food Security Crisis (composed of the heads of United Nations specialized agencies, funds and programmes, the Bretton Woods institutions and relevant entities of the United Nations Secretariat, chaired by the Secretary-General) produced a comprehensive framework for action to address the global food crisis in a coherent and coordinated way.

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I. Introduction

1. The present report has been prepared in response to General Assembly resolution 61/190, in which the Assembly requested the Secretary-General, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), to report to it at its sixty-third session on the implementation of that resolution and on world commodity trends and prospects.

II. Commodity market developments

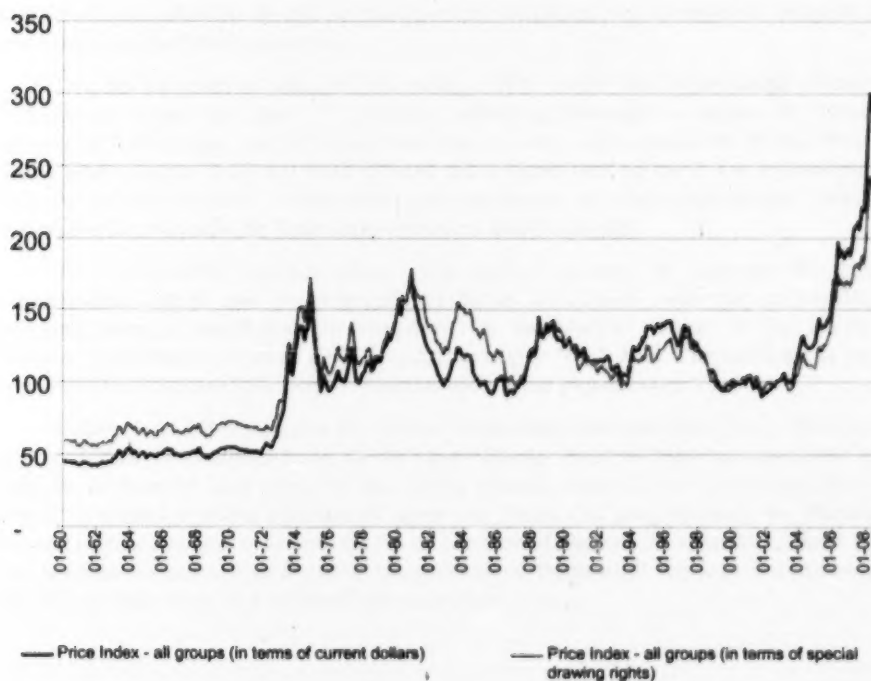
A. Price developments

2. Following the steep decline from 1995-97 to 2002, international commodity prices have been on a sustained upward trend since 2002. UNCTAD price index for non-fuel commodities has reached its highest level in current dollars since 1960 (see figure 1), rising 110 per cent between 2002 and 2007, and 71 per cent in the first six months of 2008 compared to the 2007 level.

Figure 1

**Price indices of major commodity groups: January 1960-January 2008
(2000=100)**

(In United States dollars)



3. The broad-based rise in prices has been led by the boom in metal and mineral prices, which, in the aggregate, have increased 226 per cent since 2002 (see table 1). Trading in non-ferrous metals has led the way, in particular lead and nickel, with price increases of over 400 per cent. The prices of copper, tungsten ore and zinc have increased more than 300 per cent, and tin over 200 per cent. Other metals have also seen a sustained increase in prices, notably, iron ore by 185 per cent, aluminium by 95 per cent and phosphate rock by 76 per cent. Most metals' prices, aside from aluminium, are at all-time highs. Although the advance in metal prices decelerated sharply in 2007 and some metals' prices actually declined in the first six months of 2008 (nickel (-27 per cent) and zinc (-30 per cent), for example), most metal prices have nevertheless continued to rise in the first half of 2008 and all (apart from aluminium) are above the levels of their historic highs in previous price cycles.

4. There has also been a sharp rise in the price of oil — from a 2002 average monthly level of \$25 per barrel to an average of \$108 per barrel in the first half of 2008. In July 2008, oil traded at up to \$147 per barrel, although it subsequently retreated. However, even at \$125 per barrel, the price of oil would be up 400 per cent compared to the average monthly price in 2002.

5. Among the agricultural commodities, there have been notable price increases over the period from 2002 to 2007 for agricultural raw materials: mainly rubber, with a price rise of 199 per cent; tropical logs with an increase of 64 per cent; and cotton with an increase of 37 per cent. There was, however, a decline in the price of hides and skins (-12 per cent) over the same period. The first half of 2008 has seen a continued rise in agricultural raw material prices (up 44 per cent over 2007 levels), with rubber and cotton prices advancing by 27 per cent and 20 per cent, respectively.

Table 1

World primary commodity prices: 2002-2007, 2008 (first half)

(Percentage change over previous years)

Commodity group	2002-2007 ^a	2006	2007	2008 (first half) ^b
All commodities (excluding crude petroleum)	110	43	14	71
Food	62	24	13	84
Tropical beverages	59	8	14	35
Vegetable oilseeds and oils	109	7	78	124
Agricultural raw materials	76	20	17	44
Minerals, ores and metals	226	105	36	56
Crude petroleum	184	20	11	52

Source: UNCTAD secretariat calculations based on *UNCTAD Handbook of Statistics 2008* and *UNCTAD Commodity Price Statistics online*.

Note: Prices are in current dollars.

^a Percentage change between 2002 and 2007.

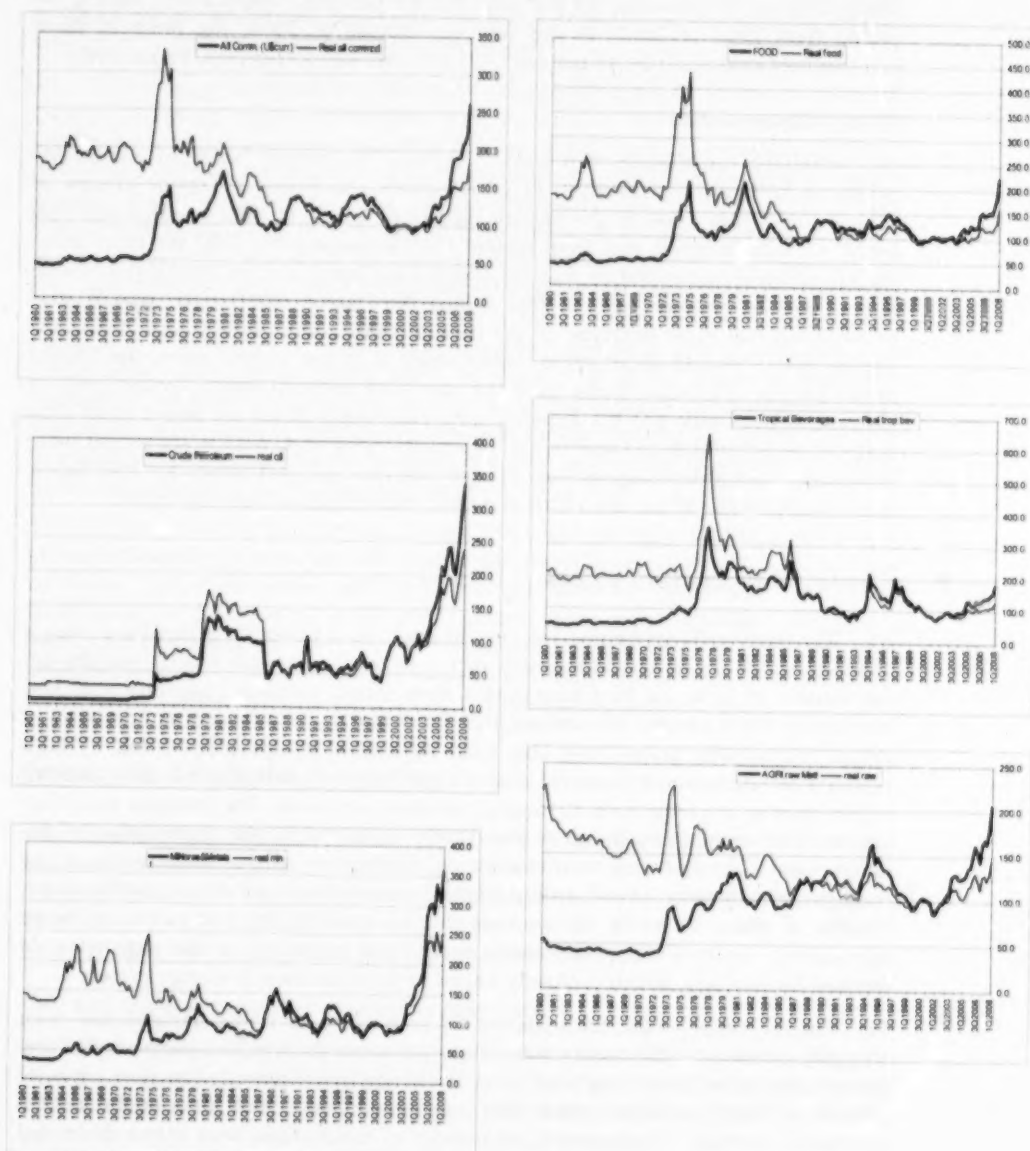
^b Percentage change between 2007 and first six months of 2008.

6. Tropical beverages, taken as a group, have experienced an almost 60 per cent increase in prices over the period from 2002 to 2007, mainly as a result of the rise in

the price of coffee (125 per cent). More modest gains were posted by tea (18 per cent) and cocoa beans (10 per cent), the prices of which have been more volatile. Tropical beverage prices have continued on an upward trend, rising 35 per cent in the first six months of 2008.

7. As a whole, the price of vegetable oilseeds and oils rose 109 per cent over the period from 2002 to 2007. After a drop of 15 per cent in 2005, there has been an accelerated rise in the price of these commodities since 2006, with an increase of 78 per cent in 2007 and a rise of 124 per cent in the first half of 2008. The main drivers of the rise in prices have been soybeans, soybean oil and palm oil, which rose by 80 per cent, 94 per cent and 100 per cent, respectively, in the period from 2002 to 2007 and by 49 per cent, 62 per cent and 51 per cent, respectively, in the first half of 2008.

Figure 2
Commodity prices: nominal and real
(1st quarter 1960 to 2nd quarter 2008, 2000=100)



Source: UNCTAD, *Commodity Price Statistics*, online.

8. The index of food prices is now at an all-time high, having risen 62 per cent during the period from 2002 to 2007 and 84 per cent in the first half of 2008. The rise in prices has been mainly in essential staples such as wheat, rice and maize, which rose by 78 per cent, 73 per cent and 69 per cent, respectively, during the period from 2002 to 2007. In the first six months of 2008, the price of those commodities rose again by 48 per cent, 121 per cent and 45 per cent, respectively.

Historical perspective

9. Although remarkable, it is useful to place the current boom in commodity prices in historical perspective. Figure 2 charts the prices of major groups of commodities from 1960 to the second quarter of 2008, in both nominal and real terms. As will be noted, that from around 1980 to about 2000-2002 the price index for all non-fuel commodities was on a declining trend in both nominal and real terms, with a sharper fall in real terms. All major commodity groups also experienced real price declines. In the case of most commodity groups, while the current boom brought about some improvement in prices in real terms, the current prices are not at all-time highs, as is the case with nominal prices. In fact, only in the case of petroleum and the minerals, ores and metals group are prices at all-time highs in both nominal and real terms. It is noteworthy that, despite the recent price increases, tropical beverage prices, in both nominal and real terms, are still below their historic highs of the late 1970s and their recent highs of the mid-1990s.

B. Causes of increasing prices

10. The driving forces behind the current boom in commodity prices have been a combination of strong global demand, owing to brisk economic growth worldwide, particularly in Asia, led by China, and a slow supply response, together with low inventories for a number of commodities, particularly oil, minerals and metals and grains. Commodity prices have also been influenced by speculation, fed by high liquidity in international financial markets and relatively low interest rates, seeking higher returns in comparison to equity and debt securities. The increase in dollar-denominated commodity prices is also partly explained by the depreciation of the dollar vis-à-vis other major currencies. A devaluation of the dollar reduces the foreign-currency price of dollar-denominated commodities and thus boosts demand. Finally, a major factor in the current rise in demand for and prices of some agricultural commodities, particularly maize and oilseeds, is the expansion in demand for biofuels, which is closely linked to developments in energy prices.

11. On the supply side, the response of production to rising demand has been sluggish, particularly for energy and metals and minerals. A prolonged period of low prices, coupled with the long lead times in mining investment, led to slow capacity growth for many years and meant that supply could not catch up with the sudden increase in demand. Consequently, inventories of metals have been drawn down and are now extremely low. In the case of oil, strong global consumption growth since 2003, largely accounted for (nearly two thirds) by China, India and the Middle East, has been met with only a sluggish supply response, which has been compounded by production shortfalls associated with geopolitical unrest in countries with large oil reserves. Production growth outside the member States of the Organization of the Petroleum Exporting Countries (OPEC) has been outpaced by world oil consumption growth every year since 2003. Thus, the gap has had to be filled by

OPEC production and/or inventories, which leave the organization's spare capacity at low levels and market conditions quite tight. These market conditions and the concentration of surplus capacity in a few countries have not only kept upward pressure on oil prices but have also increased volatility as prices have reacted strongly to actual or perceived supply disruptions.

12. In the agricultural sector, prices of commodities result from a number of factors, including supply constraints (i.e. production shortfalls due to weather conditions in major exporting countries and low world stocks of cereals) in the face of strong growth in consumption of food and feed owing to rising demand in rapidly growing Asian countries for high protein foodstuffs and the policy-driven high growth in demand for biofuels produced from coarse grains and vegetable oils, both of which have placed a strain on the grain and oilseed sectors.¹ The high costs of fuel and fertilizers have added to the cost of agricultural production and have also contributed to higher prices. High feed prices have, in turn, raised costs for animal production and resulted in an increase in livestock and dairy prices. Moreover, as a precautionary measure to ensure adequate supplies at stable prices on their own markets, some exporting countries, in reaction to bad harvests and dwindling stocks worldwide, have acted to restrict exports, thus further limiting the supply available to meet trade demands. This development has been particularly important in the case of rice, as evidenced in the huge spike in prices since 2007.

13. In the past three to five years, actual and projected tight market conditions in all major commodity markets (fuel, metals and food) have generated an expectation of further price increases and have brought about a significant increase in investment in commodity derivative markets from non-traditional commodity participants, whether for portfolio diversification or speculation. This has probably contributed to the rise in short-term commodity futures prices and is an additional factor in the current spike in spot market, or cash market, prices.

C. Impact on developing countries

14. Rising commodity prices have contributed to significant improvements in the external accounts of many developing countries that are dependent on primary commodities, as shown by large terms of trade gains for oil- and mineral-exporting countries. An estimate of the impact of changes in terms of trade in selected developing countries, by export structure, is presented in table 2.

Oil- and mineral-exporting developing countries

15. Between 2004 and 2006 income gains from changes in the terms of trade were high for oil- and mineral-exporting countries, exceeding 7 and 5 per cent of gross domestic product (GDP), while, on average, exporters of other commodities showed

¹ For example, the Organization for Economic Cooperation and Development (OECD) estimates that support to the United States, European Union and Canadian biofuel supply and use in 2006 amounted to \$11 billion per year (see OECD, *Economic Assessment of Biofuel Support Policies*, 2008). There has been a diversion of maize use due to ethanol support policies in the United States (the world's largest producer and exporter of maize) mainly from animal feed use and exports to ethanol production. Ethanol production now accounts for 30 per cent of maize utilization in the United States (up from 6 per cent in 1999/2000), while the share used for exports has dropped from 20 to 16 per cent and that for animal feed from 60 to 43 per cent.

losses. However, in some cases, the windfall gains have been partly offset by an increase in the remittance of profits by transnational corporations involved in the exploitation of natural resources. This has been the case particularly for oil- and mineral-exporting countries in Africa and Latin America where foreign companies account for a large proportion of their export-oriented production (especially in mining) and where the taxation system is favourable to private firms in the extractive industries. As shown in table 2, high income payments to non-residents drained most of the terms-of-trade-related income gains for mineral exporters between 2004 and 2006.

Table 2

Impact of changes in terms of trade and net income payments on national disposable income in selected developing country groups: average for 2004-2006

(Percentage of GDP)

	<i>Effects from changes in terms of trade</i>	<i>Effects from changes in net income payments</i>	<i>Net impact</i>
Oil exporters	7.3	-0.2	7.0
Exporters of minerals and mining products	5.7	-4.6	1.2
Other commodity exporters	-0.2	-0.1	-0.3

Source: UNCTAD secretariat calculations, based on United Nations Statistics Division, United Nations common database; International Monetary Fund (IMF), Balance of payments statistics database; Economic Commission for Latin America and the Caribbean, Balance of payments statistics database; national sources; and UNCTAD estimates of unit value and volume of exports and imports.

Other commodity-exporting developing countries

16. The record is mixed for countries exporting agricultural products. While those exporting vegetable oilseeds and oils, cereals, dairy products and some meat products have seen their terms of trade improve over the past few years, some countries exporting tropical agricultural products have seen the prices of their exports outpaced by those of imported goods (e.g. fuels and food), and thus are experiencing significant deterioration of their terms of trade. Tables 3 and 4 provide some indications of the impact on the cost of petroleum imports for selected low-income countries and on the food import bills of the low-income net food importing countries.

17. The current hike in world prices of nearly all major food and feed commodities is having a ripple effect, contributing to inflation of food prices and greater food insecurity, especially in poor countries. In recent months, food riots have broken out in several countries and a number of Governments around the world have implemented measures to limit the increase of domestic food prices and prevent a fall in consumption.

Table 3
Oil import costs as a proportion of total imports selected sub-Saharan African countries

(Percentage)

	1996-2000	2001-2005	2006
Benin	13	14	15
Central African Republic	9	12	14
Kenya	8	11	13
Madagascar	9	14	18
Rwanda	13	14	16
United Republic of Tanzania	8	17	24

Source: UNCTAD calculations.

18. The agricultural price boom has also been accompanied by much higher price volatility than in the past, especially in the cereals and oilseed sectors, increasing the degree of uncertainty of returns in agricultural markets. High and low price fluctuations are, however, typical occurrences in agricultural markets, and it can be expected that the current period of high prices will eventually end, even if the long-term trend is upwards. In that context, it is important to decide how to cope with the eventual "bust" phases, which are inevitable in the price cycle.

Table 4
Cereal import bill of low-income food-deficit countries

(In billions of United States dollars)

Region/type	2002-2003	2007-2008
Africa	6.5	17.9
Asia	7.0	19.3
Latin America and the Caribbean	0.3	0.9
Low-income food-deficit countries ^a	14.0	38.7
Wheat	7.8	22.7
Coarse grains	3.3	6.1
Rice	3.0	9.9

Source: Food and Agriculture Organization of the United Nations (FAO), *Crop prospects and food situation* (April 2008).

^a Includes food-deficit countries with per capita income below the level used by the World Bank to determine eligibility for assistance from the International Development Association (i.e. \$1,575 in 2004).

Conclusion

19. The extent to which commodity exporting developing countries will continue to benefit from high commodity prices will depend on how global demand and supply in the different commodity groups evolve. The long-term benefits for developing countries will depend on their ability to use their higher commodity

export earnings for diversification of production and industrialization. By reducing their dependence on commodities, they will also protect their export earnings from fluctuations in commodity prices.

III. The global commodity economy: continuing realities, emerging issues and long-term trade prospects

20. Although the current commodity boom has improved the situation of primary commodities in world trade and revived the potential role of commodity trade in contributing to sustained economic growth and poverty reduction in the globalized economy, key realities of the commodity economy remain. These realities, including emerging issues and the long-term prospects for commodity trade, are discussed in this section.

A. Continuing commodity dependence

21. Despite a marked shift over the past 30 years in the composition of the exports of developing countries (taken as a group) — from primary commodities to manufactures (which now account for around 70 per cent of their exports) — many developing countries are still highly dependent on commodity exports. As indicated in table 5, 92 developing countries currently depend on primary commodities for at least 50 per cent of their export earnings. If fuel is excluded, non-fuel commodities account for over 50 per cent of the average annual exports of 47 countries.

Table 5

Primary commodity dependence of developing countries

(2003-2005 annual averages)

Commodity group	Number of developing countries that derive at least 50 per cent of export earnings from commodities	Number of developing countries that derive between 20 per cent and 49.9 per cent of export earnings from commodities
All commodities	92	38
Non-fuel commodities	47	41
Fuel	25	18
Ores and metals	7	13
Agricultural raw materials	3	6
All foods	29	39

Source: UNCTAD calculation based on data from the United Nations Commodity Trade Statistics Database (COMTRADE).

22. The situation of commodity-dependent countries varies according to the commodities on which they rely. Petroleum exporting countries face an atypical demand and supply situation. The demand for oil is highly inelastic given the essential role of energy in the functioning of modern society and productive processes and the low degree of technical and economic substitutability of other sources of energy supply in the short term. At the same time, economically exploitable supplies are available only in a limited number of countries. To a degree,

the situation of mineral exporters is similar to that of oil on the supply side: supply is determined principally by the existence of mineral deposits. However, demand for minerals closely follows the business cycle and industrial demand growth in the industrialized and industrializing countries.

23. Exporters of agricultural commodities fall into two categories: low-income producing countries dependent on the export of one or a few agricultural commodities, such as the traditional tropical products produced by small-scale farmers; and dynamic, more diversified, middle-income agricultural exporting countries. The latter group includes a few developing countries such as Argentina, Thailand, Malaysia, Viet Nam and Brazil, whose export of certain bulk commodities (e.g. cereals and oilseeds) are highly competitive. These more agriculturally diversified developing countries have actually become less commodity-dependent over the past decade.

B. The low-income commodity dependency trap

24. In contrast, the low-income agricultural producing developing countries are mostly specialized in export of commodities (i.e. traditional tropical products), for which demand in traditional developed country markets has been sluggish in recent years. As a result, their share of world commodity trade has been stagnant or falling, along with their capacity to diversify into higher value commodities or manufacturing. Although specialized in agricultural exports, these countries are typically net importers of food. The largest single concentration of commodity-dependent countries in this category is in Africa.

25. With reliance on one — or a few — export commodities, low-income commodity-producing developing countries are highly vulnerable to trade shocks and face an unpredictable situation at both the micro and macro levels. Declining and volatile commodity prices adversely affect both the income of farmers and rural employment, creating uncertainty in rates of return on investment and reducing both the willingness and the capacity of farmers and entrepreneurs to invest. As a consequence, there is a lack of investment in improving productivity and adding value to production. At the macro level, declining and volatile commodity prices often have a direct negative impact on macroeconomic stability, fiscal balance, and balance of payment sustainability. Reduced foreign exchange earnings put further pressure on foreign exchange availability, limiting import capacity, reducing external creditworthiness and making foreign debt servicing less sustainable.

26. The low-income commodity-producing developing countries participating in international markets are confronted by a common set of challenges. These include structural oversupply for many of their traditional export commodities (and therefore declining prices), erosion of trade preferences as a result of multilateral and regional trade liberalization (contributing to difficulties in retaining international market shares), a proliferation of standards in their traditional markets in OECD countries and increasing concentration and reduced competition in global supply chains for products based on those primary commodities (which make value addition and greater participation in value chains more difficult). Some of these problems are related to the workings of the international trading system (see section C below).

27. Given the high incidence of poverty and low state of development in low-income agricultural commodity-dependent developing countries, the trade and development prospects of this category of countries require special attention. There is a need for urgent action in view of the limited progress they have made towards achieving the Millennium Development Goals at the midpoint (2000-2015).

C. Structural and systemic factors affecting the development and poverty reduction impact of commodity production and trade

28. Both internal and external factors have an impact on the extent to which commodity sectors can serve as an engine of growth in developing countries. Internal constraints include institutional, policy, infrastructural and human capital deficits as well as structural problems. For example, in the oil and mining sectors, linkages between those sectors and the rest of the economy are frequently not developed. The lack of appropriate strategies for investing oil and mining revenues has also limited the impact of those sectors on development. In the agricultural sector, supply-side constraints, in particular inadequate trade-related infrastructure, human capital and technological innovation, reduce opportunities for vertical diversification and value addition.

29. Trade barriers in the international trading system (market access and entry conditions, lack of regulation of anti-competitive practices in international supply/value chains, inability to comply with ever-changing trade standards) also limit opportunities for commodity-based development. For example, tariff peaks and tariff escalation mainly affect agricultural products. Moreover, large domestic support for agriculture and export subsidies in OECD countries have led not only to declines and greater instability in the prices of some agricultural commodities on world markets (cotton for example), but also to a crowding out of developing countries in export markets. Finally, by subjecting developing countries to most of the rules that hold for developed countries in the multilateral trading system, the policy flexibility of commodity-dependent developing countries to promote commodity-based development through targeted policy incentives is reduced.

D. Emerging commodity policy issues

30. Several emerging issues have a bearing on the extent to which stronger demand and higher prices for commodities will translate into sustainable growth and development and poverty reduction. These include: distribution of the gains from higher prices between foreign investors and host countries in the extractive industries; preservation of a competitive environment in commodity supply chains; energy security; and food security.

1. Distribution of rent from extractive industries

31. The Government share in the rent from export-oriented activities in the mining, oil and gas sectors is a potentially important source of revenue for financing development. The rise in the prices of oil, minerals and metals in the past few years has rekindled the debate on the distribution and use of windfall rents in the extractive industries. Fiscal incentives accorded to foreign investors have come under criticism, especially in a number of Latin American countries. The incentives,

which were mostly introduced during a period of persistently low mineral prices, are now seen by many as unnecessarily generous given the present, much higher, prices. In response, some countries have recently revised their fiscal and ownership regulations in the oil and mining sectors.²

2. Competition in commodity supply/value chains

32. Commodity trading companies, processors and retailers (for example, large supermarket networks) in major consuming markets control commodity supply chains, a situation that is reinforced by the ongoing concentration on the side of commodity buyers and the parallel fragmentation on the side of producers.³ This makes most producers in commodity dependent developing countries "price takers", in other words they have little or no control over the price they may charge in the market. Increased concentration in commodity markets is a major reason for the widening spread between what consumers pay and what producers receive for their produce.⁴

33. How to deal with the phenomenon of mega-mergers in commodity sectors and competition issues in global supply/value chains is a pressing challenge. There is an urgent need to strengthen competition policy in commodity industries where, increasingly, the principal actors are a small number of large enterprises that dominate the trading and processing activities in those commodities around the globe.

3. Energy security

34. Access to affordable energy is indispensable for sustaining economic growth and improving the quality of life. While the impact of the current oil price increases on net oil-importing countries has in general been much smaller than in the two previous periods of oil price hikes (1973-1974 and 1979-1983), it has been greater for developing countries. Part of the reason is an increased reliance on oil imports in the developing world, largely as a result of industrialization and urbanization. Whereas in 1972 the oil import bill in developing countries (excluding OPEC) represented 0.8 per cent of their GDP, in 2004-2005 it exceeded 3.5 per cent, roughly twice the ratio in the main OECD countries. The ratio of oil imports to GDP remains the highest in Asia, followed by sub-Saharan African countries (excluding Nigeria and South Africa), despite a much lower level of industrialization. As noted in section II above, some low-income oil-importing developing countries have been particularly hard hit (see table 3).

35. In summary, oil dependency remains high in many developing countries, where 1.6 billion people still lack access to electricity. The prospect of sustained high oil prices will adversely affect economic growth and poverty reduction for countries not experiencing higher prices for their exports.

² See UNCTAD, *World Investment Report 2007*, chap. 6.

³ In the context of structural adjustment programmes, marketing boards have been dismantled in a large number of commodity-dependent developing countries.

⁴ The increased profits of both trading and processing companies over the period of the price collapse of tropical products such as coffee and cocoa suggests that market concentration has benefited these companies.

4. Food security

36. Rising global food prices and the availability of food to meet the demand of net food importing countries have raised a host of food security issues. In many countries, and even in countries where the balance of payments has not been adversely affected, the impact of rising food prices has weighed heavily on the poor, especially in urban areas. The poor spend proportionately more of their income on food (between 60 to 70 per cent in many developing countries) and are thus the hardest hit when prices rise. Price increases for staple foods are associated with a significant rise in poverty. Food riots have already occurred in more than 30 countries in recent months.

37. In addition, recent restrictions of agricultural exports by exporting/producing countries have highlighted imbalances in the global food system wherein many net-food importing countries depend on a few exporting countries. This has raised issues of appropriate strategies to avoid a food crisis in cases of instability in exporting countries.

38. Finally, interest in long-term food security is being raised by the declining availability of arable land (including water resources) in some regions due to growing population and urbanization, as well as the competing uses of land for the production of food, animal feedstock and biofuels. The switch to biofuels, which is in part support by the surge in crude oil prices, is already having a significant impact on farmland use in major producer-exporting countries. For instance, increasing the land under maize production in the United States for ethanol production has displaced land for soybeans, the price of which has been rising sharply since mid-2006.

E. Long-term trade prospects: new demand for commodities

39. Commodity prices were on a declining trend in the last two decades of the twentieth century mainly because of sluggish demand growth from developed countries (the traditional importing countries) in relation to supply. However, since 2002, there has been a reversal in that trend, driven largely by fast growing demand from newly industrializing developing countries. The emerging new reality in this first decade of the twenty-first century is that developing countries are becoming major and growing consumers of commodities. The recent commodity price boom has been due largely to the rapid demand growth from developing countries in Asia, especially China.

40. The outlook is for strong economic growth in developing countries, especially in Asia, to continue at a fast pace for at least a decade. For example, after slowing somewhat during the period from 1997 to 2002 to single digit annual average growth rates due to the Asian financial crisis, China resumed its double digit growth in 2003 (see table 6). India is also approaching double-digit growth. The dynamism of growth is reflected in rapid industrialization and urbanization, accompanied by high rates of investment in housing and infrastructure. Continued strong growth in these two vast developing economies will impart a strong demand for commodities, especially because they are in a phase of development in which the intensity of use of energy, metals and raw materials is on the rise. Already China has become the principal consumer of a wide range of metals (steel, copper, aluminium, zinc and lead) and of several other commodities (cotton and rubber). Rising standards of

living will also increase demand for food imports, particularly because of the shift to a diet higher in proteins and rapidly rising consumption of items that have traditionally been considered luxuries, including coffee and cocoa.

Table 6
World output growth: 1995-2007

(Annual percentage change)

Region/country	1995-2000	2003	2004	2005	2006	2007
World	3.3	2.7	4.0	3.4	4.0	3.8
Developed economies	3.0	1.8	2.9	2.3	2.8	2.5
United States of America	4.2	2.5	3.6	3.1	2.9	2.2
Economies in transition	1.8	6.8	7.3	6.5	7.2	8.2
Developing economies	4.2	5.6	7.2	6.7	7.1	7.3
Developing economies: Africa	3.4	4.9	5.6	5.7	5.6	5.9
Developing economies: America	3.0	2.4	6.1	4.7	5.4	5.7
Developing economies: Asia	4.9	6.9	7.8	7.5	7.9	8.1
China	8.5	10.0	10.1	10.4	11.1	11.4
India	5.8	8.3	8.5	8.8	9.2	9.7

Source: UNCTAD *Handbook of Statistics* 2008, online (<http://stats.unctad.org/Handbook/>).

41. In table 7 it is shown that between 1995 and 1997 and 2003 and 2005 developing countries increased their share in world primary commodity imports in total and in every major commodity group. The largest increase in developing country world import shares occurred in ores and metals, agricultural raw materials and foods. Asia, particularly China, mainly account for the rise in these import shares. Although developed countries still account for at least 60 per cent of world commodity imports, industrializing developing countries are projected to continue to grow at a faster pace than developed countries in all major commodity groups and will consequently continue to underpin demand growth in raw material markets.

Table 7
Shares in world imports: 1995-1997 and 2003-2005
 (Percentage of world imports of each category; annual averages)

Regions	All commodities		Fuels		Ores and metals		Agricultural raw materials		Forestry		All foods		Fish	
	1995-1997	2003-2005	1995-1997	2003-2005	1995-1997	2003-2005	1995-1997	2003-2005	1995-1997	2003-2005	1995-1997	2003-2005	1995-1997	2003-2005
Developed countries	69	67	68	67	69	60	68	62	77	70	70	69	84	80
Developing countries	28	30	28	30	28	37	31	36	22	29	27	29	15	18
Asia	20	23	21	24	24	32	24	29	17	25	17	17	12	14
China	2	6	2	4	3	13	5	13	2	12	2	3	1	3
India	1	2	2	3	1	2	1	2	1	2	0	1	0	0
Transitional economies	4	3	4	3	2	3	1	2	1	1	4	4	1	2
World imports (in billions of United States dollars)	1 236	2 189	437	1 087	182	302	141	160	168	78	476	639	53	71

Source: UNCTAD calculations based on COMTRADE data.

42. Given the growth in demand, which is centred mainly on fuels, metal and agricultural raw materials, exporting developing countries of these commodities are likely to benefit from strong demand and relatively high world prices for such commodities. Exporting developing countries are likely to benefit further from the fact that the developing countries have a rising share in each others' commodity trade (see table 8).

Table 8

Commodity trade, including fuels, among developing countries, by region

(1995-1997 and 2003-2005 averages)

Region	Exports to developing countries (Percentage of total commodity exports)		Imports to developing countries (Percentage of total commodity imports)	
	1995-1997	2003-2005	1995-1997	2003-2005
Africa	23	30	41	56
America	31	33	51	53
Asia	37	48	59	64
All developing countries	33	41	56	61

Source: UNCTAD calculations based on COMTRADE data.

43. It seems unlikely, however, that commodity trade growth to developing countries alone will be sufficient to permanently reverse the long-term decline in real commodity prices, given that the developed countries still account for between 60 to 80 per cent of world imports of all major categories of commodities. Nevertheless, a sustained increase in the demand for commodities by developing countries from each other, linked to their accelerating pace of industrial growth, will continue to provide additional opportunities for increased commodity exports by developing countries, including capture of value added in the new supply chains being developed directly from producing developing countries to new consuming markets in Asia. Thus, in the medium- to long-term, low-income commodity-dependent developing countries may be able to generate sufficient gains from commodity trade to help launch their economies on a sustained growth path of rising per capita income and progress in poverty reduction.

IV. Developments contributing to the implementation of General Assembly resolution 61/190

44. General Assembly resolution 61/190 on commodities addressed a wide variety of entities, ranging from developing and developed countries and their Governments to international organizations and the private sector. Activities have been undertaken in most areas referred to, sometimes going beyond the specific requests in the resolution. For example, the resolution reaffirmed the pledge to end hunger and poverty, reiterated the importance of maximizing the contribution of the commodity sector to sustained economic growth and sustainable development, recalled the potential of regional integration and cooperation to improve the effectiveness of traditional commodity sectors and support diversification efforts, reiterated the

importance of expanded South-South trade and investment in commodities, reaffirmed that an effective enabling environment at the national and international levels entails, *inter alia*, good governance and also reaffirmed the commitments to meaningfully integrate the developing and the least developed countries into the multilateral trading system. These are areas where UNCTAD has been particularly active since the sixty-first session of the General Assembly, although its activities in some areas, including fighting hunger and poverty and the multilateral trading system, intersect with the mandates of other international organizations such as the Food and Agriculture Organization of the United Nations (FAO) and the World Trade Organization.

45. UNCTAD has been active in providing assistance to developing countries in the context of the Doha round of trade negotiations on agriculture and in the efforts of non-member developing countries to accede to the World Trade Organization on terms and conditions that are appropriate to their situation. UNCTAD has also been active in addressing the global food crisis caused by soaring food prices and participates along with other United Nations agencies and the Bretton Woods institutions as a member of the High-level Task Force on the Global Food Security Crisis, which produced, in July 2008, a comprehensive framework for action to address the global food crisis in a coherent and coordinated way.

46. The comprehensive framework of action presents two sets of immediate actions to promote a comprehensive response to the global food crisis. The first focuses on meeting the immediate needs of vulnerable populations through: (a) the enhanced and increased accessibility of emergency food assistance, nutrition interventions and safety nets; (b) support for boosting smallholder farmer food production; (c) appropriate adjustments in trade and tax policies; and (d) management of macroeconomic implications. The second focuses on building resilience and contributing to global food and nutrition security in the longer-term through: (e) expanded social protection systems; (f) sustained growth in smallholder farmer-led food availability; (g) improved international food markets; and (h) development of an international consensus on biofuel. The global incremental financing requirements related to the food crisis and needed in order to maintain progress towards achievement of Millennium Development Goal 1 are estimated at between \$25 to 40 billion per annum.

47. The General Assembly, in its resolution 61/190, called upon developed countries and developing countries declaring themselves in a position to do so to provide duty-free and quota-free market access on a lasting basis for all products originating from all least developed countries, consistent with the Hong Kong Ministerial Declaration. Since 2007, several countries, including China, India, Japan and Switzerland,⁵ have improved, expanded or introduced new schemes covering least developed countries.

48. In the same resolution the General Assembly also called for "the successful and timely completion of the Doha round of trade negotiations with the full realization of the development dimensions". Despite the progress made in narrowing differences in the Doha round of trade negotiations over the past 18 months, including through a mini-ministerial meeting held in July 2008, members of the World Trade Organization have not been able to reach agreement to move the

⁵ For further details, see: UNCTAD, *GSP NEWSLETTER*, Number 9, July 2008.

agricultural reform agenda forward. One implication is that the distortions in agricultural markets will remain unchanged and continue to adversely affect the commodity-based development and diversification efforts of many developing countries. An issue of importance in the Doha process, particularly for the cotton producing countries of West and Central Africa, has been the sectoral initiative to address cotton-specific trade and development issues ambitiously, expeditiously and specifically. Progress on the cotton issue is linked to progress in agricultural negotiations. Although cotton prices have improved recently, distortions in the cotton market need to be reduced. Generally, across agricultural markets, the current high level of agricultural prices undercut the rationale for large farm subsidies and protection.

49. In its resolution 61/190, the General Assembly emphasized the need for developing countries that are highly dependent on primary commodities to encourage diversification and liberalization of the trade and export sectors and enhance competitiveness and encouraged developing countries, with the necessary support of donor countries and the international community, to formulate specific commodity policies so as to contribute to the facilitation of trade expansion, the reduction of vulnerability and the improvement of livelihood and food security. The Assembly also invited developing countries, in cooperation with developed countries and relevant international organizations, to establish medium- and long-term commodity development programmes geared towards enhancing research for product diversification and improving the production, productivity, value addition and competitiveness of developing countries' commodities.

50. The developing countries have made several efforts in this direction, including: efforts by the African Union to articulate a strategic vision (African Mining Vision 2050) for the management and use of Africa's natural resources for the accelerated economic and social development of the continent; efforts by several least developed countries to formulate strategies to strengthen their productive and trading capacities based on commodities, including in the context of aid-for-trade initiatives; and efforts of several oil producing developing countries to implement development programmes geared towards the diversification of their energy sectors and economies.

51. In resolution 61/190 the General Assembly also stressed the importance of, and called for: increased technical assistance and capacity-building support to developing countries, including by international organizations, developed countries and the private sector, in several areas: measures that are appropriate and necessary for meeting market requirements and standards; human and institutional capacity-building, as well as infrastructure development to enhance their commodity trade; agriculture and rural development and activities aimed at addressing commodity issues; and training and awareness-building programmes on the functioning of commodity exchanges. The Assembly also expressed the urgent need for supportive international policies and measures to improve the functioning of the commodity markets, including commodity exchanges.

52. A review of commodity-related activities of international organizations reveals that, to a large extent, they have responded to the various elements contained in the resolution that fall within their relevant programmes of work. For example, UNCTAD is a partner with the Common Fund for Commodities, FAO, the International Trade Centre UNCTAD/WTO (ITC), the World Bank and the European Union All ACP in

the Agricultural Commodities Programme. The programme seeks to strengthen the capacities of the targeted countries to develop and implement sustainable commodity strategies that improve their productivity and livelihoods and reduce income vulnerability through improved access to and use of markets, production factors and services, including enhanced access to market-based instruments to reduce producers' income vulnerability. UNCTAD has also implemented a broad range of capacity-building and technical cooperation activities on commodities, including projects to: help developing country exporters comply with the requirements of the Sanitary and Phytosanitary (SPS) Agreement and private sector standards (for example, in Guinea, Mozambique, the United Republic of Tanzania and the Pacific Islands) in order to assist small producers in achieving market acceptance by supermarkets (in cooperation, for example, with the Swiss supermarket chain Migros); develop information exchange websites (www.natural-resources.org/minerals) on best practices in mining with the United Nations Environment Programme (UNEP), the International Council on Mining and Metals and the UK Department for International Development (www.goodpracticemining.org) and with Latin American countries (www.redlieds.org) in order to assist African countries in formulating policies for marshalling their oil and gas wealth and restructuring their industries in the service of long-term development objectives (the eleventh UNCTAD-Africa Oil and Gas and Finance Conference was held in Nairobi from 23 to 25 May 2007); raise awareness of the functioning of commodity exchanges (for example the expert meeting on their developmental role, Geneva, 3 September 2007; and case studies of the development impact of existing commodity exchanges in developing countries); and provide technical support to the African Union in defining the concept and implementation plan of the Pan-African Commodity and Derivatives Exchange.

53. The General Assembly, in paragraph 17 of resolution 61/190, underlined the need to strengthen the Common Fund for Commodities and encouraged the Fund, in cooperation with the International Trade Centre UNCTAD/WTO, UNCTAD and other relevant bodies, to continue to strengthen the activities covered by its Second Account. The Common Fund for Commodities has continued to support developing countries in the areas mentioned in the resolution. At the meeting of its Executive Board in October 2007, the Board approved the largest number of projects in its history, including some presently getting off the ground and projects to launch its new 5-year action plan (2008-2012). In 2008, the Common Fund will commit roughly over \$20 million to finance projects. All projects must be in line with commodity strategies that are fully supported by the international commodity bodies.

54. Finally, in its resolution 61/190 the General Assembly reiterated the role of UNCTAD in addressing commodities issues in a comprehensive way and called upon the donor community to provide the resources required to enable the Conference to undertake those activities. The role and mandate of UNCTAD on commodities issues were reconfirmed at its Twelfth Conference, which took place in Accra in April 2008. The outcome of the Twelfth Conference, the Accra Accord, stipulates that UNCTAD should (a) continue to play a key role, with appropriate coordination with other international and regional actors, including with relevant international commodity bodies, to address the trade and development problems associated with the commodity economy, giving due attention to all commodity sectors such as agriculture, forestry, fisheries, metals and minerals and oil and gas; (b) monitor developments and challenges in commodity markets and address links

between international commodity trade and national development, particularly with regard to poverty reduction; and (c) enhance its efforts, under the three pillars of its work (i.e. research and analysis, technical cooperation and consensus building), to help commodity-dependent developing countries to harness development gains from the current boom in commodity prices, as well as to deal with trade and development problems related to commodity dependence.

55. In this context, the Accra Accord provides that UNCTAD should:

(a) Assist commodity-dependent developing countries, particularly small commodity producers, in their efforts to:

- Develop national commodity strategies, including mainstream commodity policies into their national and regional development strategies;
- Build supply-side capacity and attain competitiveness;
- Move up value chains and diversify commodity sectors;
- Comply with public and private international trade standards;
- Access commodity information and databases;
- Take advantage of export opportunities for commodities in emerging markets;
- Assist developing countries, upon request, in building human and institutional capacities;
- Assist developing countries, on request, to promote and improve transparency and accountability in the public, private and corporate sectors in order to enable the countries concerned to maximize the benefits that accrue to them from the extractive industries, taking into account, where appropriate, the implementation of relevant initiatives on extractive industries;
- Establish effective marketing systems and support frameworks for small commodity producers, including economically viable safety net programmes;
- Develop commodity financing and risk management schemes (including commodity exchanges);

(b) Promote intergovernmental cooperation in the field of commodities and consensus-building on:

- Ways to integrate commodity policies into national, regional and international development and poverty reduction strategies;
- Trade related policies and instruments for resolving commodity problems;
- Investment and financial policies for accessing financial resources for commodity-based development, including with respect to official development assistance, Aid for Trade and other possibilities;

(c) Contribute to building effective multi-stakeholder partnerships with a view to identifying innovative approaches to resolving commodity-related problems.

56. The Accra Accord also mandated the Trade and development Board to establish a multi-year expert meeting on commodities. As provided for in the accord, multi-year expert meetings should provide "practical options and actionable outcomes". In relations to commodities, this implies that such conclusions would

have relevance for addressing the opportunities and challenges relating to the long-standing commodity trade and development issues identified in the accord and to assuring development gains from the boom in commodity prices.

57. The Accra Accord also provided for a strengthening of secretariat arrangements in support of the implementation of the Accra mandate on commodities, as follows:

In view of the current challenges in commodities markets, the Secretary-General of the United Nations is urged to transform the existing Commodities Branch into an autonomous unit reporting directly to the Secretary-General of UNCTAD, within existing resources of the Commodities Branch of the Division of International Trade in Goods and Services, and Commodities, while retaining the Branch mandate and taking into account, without duplicating, the work of other relevant organizations. Through the guidance and leadership of the Secretary-General of UNCTAD, this unit should contribute more effectively to developing countries' efforts to formulate strategies and policies to respond to the challenges and opportunities of commodity markets.

V. Conclusions

58. The current commodity boom has improved the situation of primary commodities in world trade and revived the potential role of commodity trade in contributing to sustained economic growth and poverty reduction in the globalized economy. However, key realities of the commodity economy remain, including high price volatility in the sector, declining long-term trends in some commodity prices and incomes in real terms, limited development gains from the production and trade of primary commodities for many developing countries (especially low-income countries) and continued difficulties in diversification. Several emerging issues have a bearing on the extent to which stronger demand and higher prices for commodities will translate into sustainable growth and development and poverty reduction. These include the distribution of the gains from higher prices between foreign investors and host countries in the extractive industries, the preservation of a competitive environment in commodity supply chains, energy security and food security.

59. The comprehensive framework for action released in July 2008 by the High-level Task Force on the Global Food Security Crisis (composed of the heads of the United Nations specialized agencies, funds and programmes, the Bretton Woods institutions and relevant entities of the United Nations Secretariat, chaired by the Secretary-General) provides a plan of action for addressing the global food crisis in a coherent and coordinated way, with a focus on immediate measures to boost global food and nutrition security in both short-term and longer-term. The outcome of the Twelfth United Nations Conference on Trade and Development, the Accra Accord, provides an effective framework for dealing with the other commodity issues reviewed in the present report. The General Assembly may wish to monitor progress in the implementation of actions in each of these frameworks.